



Steve Tshwete Local Municipality  
Annual Financial Statements  
for the year ended June 30, 2016  
Published August 31, 2016

Audited  
By

2016 -11- 30

Auditor General South Africa  
Mazibela Ngwenyama

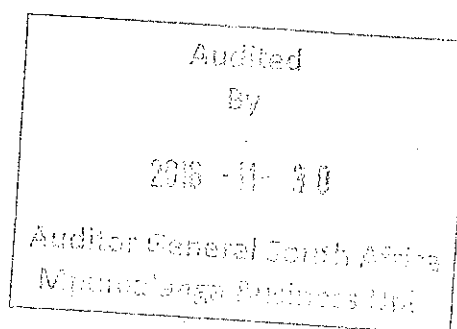
# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## General Information

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Legal form of entity	Municipality
Municipal demarcation code	MP313
Type of municipality	Category B
Grading of local authority	Grade 4
Capacity of local authority	High capacity
Nature of business and principal activities	<p>The main business of the municipality is to structure and manage its administration, budgeting and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community.</p> <p>The main types of services rendered by the municipality include the provision of electricity and water, collection, purifying and disposal of waste and waste water and the construction and maintenance of roads and provision of parks, sport and recreation facilities.</p>
Executive mayor	Cllr MAS Masina
Speaker	Cllr RM Xaba
Council whip	Cllr BP Ndala



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## General Information

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### Mayoral committee

Cllr NJ Mahlangu  
Cllr EF Mathebula  
Cllr DJ Motsepe  
Cllr SD Nkadimeng  
Cllr EP Nkosi  
Cllr H Pilodia

### Councillors

Cllr E du Toit  
Cllr J Dayson  
Cllr AS Grobler  
Cllr PM Hadebe  
Cllr EA Jele  
Cllr DS Khanyile  
Cllr TR Langeveld  
Cllr DM Longman  
Cllr SA Lukhele  
Cllr NJ Mahlangu  
Cllr TB Mahlangu  
Cllr O Malinga  
Cllr LI Manzini  
Cllr PJ Masilela  
Cllr MA Masina  
Cllr EF Mathebula  
Cllr M Mathibela  
Cllr J Matshiane  
Cllr M Mbatwe  
Cllr LE Mkhuma  
Cllr NJ Mlambo  
Cllr MR Mnguni  
Cllr MTE Mnguni  
Cllr SM Mnguni  
Cllr P Mobango  
Cllr SM Mogola  
Cllr KN Monareng  
Cllr TN Morufane  
Cllr MS Motebu  
Cllr DJ Motsepe  
Cllr GZ Msimango  
Cllr ZD Mtshweni  
Cllr BP Ndala  
Cllr HF Niemann  
Cllr SD Nkadimeng  
Cllr EP Nkosi  
Cllr ME Nyambi  
Cllr H Pilodia  
Cllr JP Pretorius  
Cllr GHE Romijn  
Cllr SJ Roos  
Cllr MJ Sekgwele  
Cllr MJ Selala  
Cllr MT Selala  
Cllr PM Shongwe  
Cllr P Sithole  
Cllr DJ Skhosana  
Cllr BC Skosana  
Cllr J Skosana  
Cllr A Struwig  
Cllr PP Tau  
Cllr PI Thwala  
Cllr KPJ Uys  
Cllr TN van Zyl  
Cllr S Wait  
Cllr RM Xaba  
Cllr SS Zitha

Audited

By

2016-11-30

Auditor General South Africa  
Mphahlele & Partners Ltd.

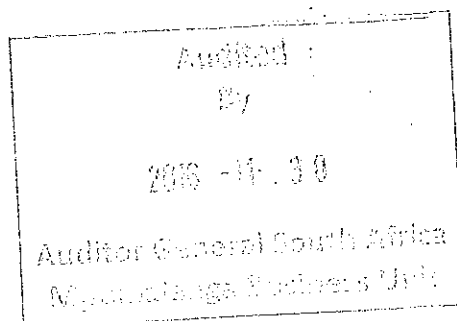
# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## General Information

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Accounting Officer	SM Mnguni (Acting)
Chief Finance Officer (CFO)	E Wassermann
Registered office	Civic Centre Wanderers Avenue Middelburg 1050
Postal address	P.O. Box 14 Middelburg 1050
Bankers	ABSA Bank Nelspruit
Auditors	Auditor-General of South Africa Nelspruit
Attorneys	Johan Alberts van Deventer and Campher Mohube Setswalo Mabusela and Nkgadima JV



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Index

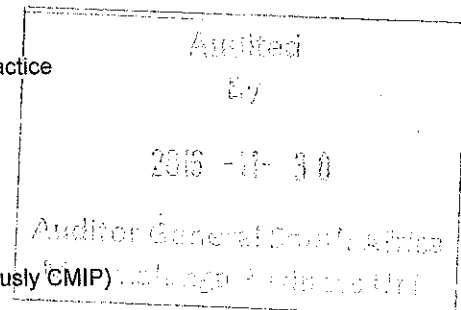
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The reports and statements set out below comprise the annual financial statements presented to the council:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal System Improvement Grant
SALGA	South African Local Government Association



# **Steve Tshwete Local Municipality**

Annual Financial Statements for the year ended June 30, 2016

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

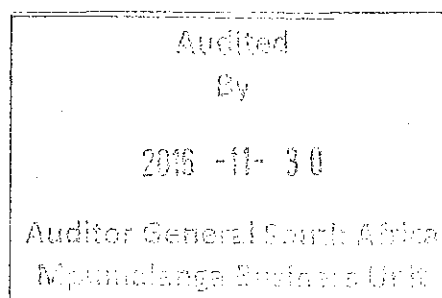
The external auditors are responsible for the audit and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on pages 7 to 96, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2016 and were signed on its behalf by:

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**Accounting Officer**  
**SM Mnguni (Acting)**  
**Middelburg**

**Wednesday, August 31, 2016**



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Audit Committee Report

We are pleased to present our report for the financial year ended June 30, 2016.

### Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 7 meetings were held.

Name of member	Number of meetings attended
M Mmapheho (Chairperson)	5
V Chuene	7
L Langalebalela	6
L Thubakgale	4
M Mathabathe	5

### Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

### Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the municipality's compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

### Internal audit

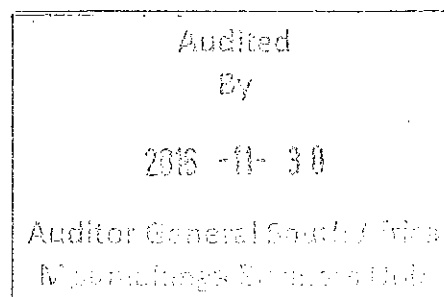
The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

### Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

\_\_\_\_\_  
Chairperson of the Audit Committee

Date: \_\_\_\_\_



## Annual Financial Statements for the year ended June 30, 2016

	Note(s)	2016 R	2015 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	80,463,242	98,935,106
Consumer receivables	4	73,504,781	60,533,071
Other receivables from exchange transactions	4&5	25,604,902	12,331,837
Other receivables from non-exchange transactions	4&6	11,125,056	16,936,529
VAT receivable	7	6,070,158	31,292,987
Operating lease asset	8	2,292,990	2,321,747
Inventories	9	169,156,738	159,620,364
Investments	10	485,000,000	410,000,000
Long term receivables	11	41,688	110,780
		<b>853,259,555</b>	<b>792,082,421</b>
<b>Non-Current Assets</b>			
Long term receivables	11	21,239	47,532
Investment property	12	25,941,390	25,922,685
Property, plant and equipment	13	6,033,148,460	5,938,509,017
Intangible assets	14	1,284,736	1,895,644
		<b>6,060,395,825</b>	<b>5,966,374,878</b>
<b>Total Assets</b>		<b>6,913,655,380</b>	<b>6,758,457,299</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	15	158,825,855	185,059,301
Payables from non-exchange transactions	16	6,796,510	2,330,857
Consumer deposits	17	81,886,507	71,952,206
Finance lease obligation	18	106,805	173,542
Unspent conditional grants and receipts	19	5,344,905	1,993,207
Provisions	20	1,366,271	2,557,938
Long term liabilities	21	10,334,263	11,730,504
Long service award	22	1,830,099	1,170,704
Employee benefit obligation	23	2,500,860	2,441,268
		<b>268,992,075</b>	<b>279,409,527</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	18	-	112,457
Provisions	20	18,767,012	14,782,318
Long term liabilities	21	66,765,898	77,107,026
Long service award	22	15,859,434	14,494,712
Employee benefit obligation	23	81,109,921	70,954,719
		<b>182,502,265</b>	<b>177,451,232</b>
<b>Total Liabilities</b>		<b>451,494,340</b>	<b>456,860,759</b>
<b>Net Assets</b>		<b>6,462,161,040</b>	<b>6,301,596,540</b>
Accumulated surplus		6,462,161,040	6,301,596,540

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# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	25	728,751,091	657,429,641
Rental of facilities and equipment		17,065,885	15,172,825
Interest received - trading	26	2,860,040	2,111,142
Income from agency services		17,659,784	15,909,082
Licences and permits		8,758,199	9,119,306
Investment revenue	27	39,770,333	24,304,500
Other income	28	33,761,383	67,727,948
<b>Total revenue from exchange transactions</b>		<b>848,626,715</b>	<b>791,774,444</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	29	308,610,464	282,793,099
<b>Transfer revenue</b>			
Government grants and subsidies	30	183,431,892	174,994,414
Public contributions and donations	31	60,973,026	54,542,919
Fines, penalties and forfeits		17,015,677	13,868,678
<b>Total revenue from non-exchange transactions</b>		<b>570,031,059</b>	<b>526,199,110</b>
<b>Total revenue</b>		<b>1,418,657,774</b>	<b>1,317,973,554</b>
<b>Expenditure</b>			
Employee related costs	32	(363,305,143)	(330,847,428)
Remuneration of councillors	33	(19,089,603)	(17,893,745)
Depreciation and amortisation	34	(146,172,103)	(149,055,537)
Impairment loss/ Reversal of impairments	35	(12,978,003)	(5,224,731)
Finance costs	36	(8,391,097)	(9,718,816)
Rentals		(1,021,495)	(983,561)
Debt impairment	37	(8,293,281)	(2,060,164)
Collection costs		(342,658)	(302,545)
Repairs and maintenance		(65,327,054)	(54,453,294)
Bulk purchases	38	(379,618,096)	(326,861,937)
Contracted services	39	(38,586,791)	(34,458,036)
Grants and subsidies paid	40	(71,439,309)	(63,791,397)
Contribution to provisions		(21,460,536)	(16,724,366)
General expenses	41	(122,356,416)	(199,497,251)
<b>Total expenditure</b>		<b>(1,258,381,585)</b>	<b>(1,211,872,808)</b>
<b>Operating surplus</b>		<b>160,276,189</b>	<b>106,100,746</b>
Gain on disposal of assets and liabilities		289,806	244,375
<b>Surplus for the year</b>		<b>160,565,995</b>	<b>106,345,121</b>

Audited  
By  
2016 - 11 - 30  
Auditor General South Africa  
Mphahlele & Partners Jnr.

\* See Note 47

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	6,244,347,619	6,244,347,619
Adjustments		
Prior year adjustments	(49,096,200)	(49,096,200)
<b>Balance at July 01, 2014 as restated*</b>	<b>6,195,251,419</b>	<b>6,195,251,419</b>
Changes in net assets		
Surplus for the year	106,345,121	106,345,121
Total changes	106,345,121	106,345,121
Opening balance as previously reported	6,302,524,490	6,302,524,490
Adjustments		
Correction of errors (refer note 47)	(929,445)	(929,445)
<b>Restated* Balance at July 01, 2015 as restated*</b>	<b>6,301,595,045</b>	<b>6,301,595,045</b>
Changes in net assets		
Surplus for the year	160,565,995	160,565,995
Total changes	160,565,995	160,565,995
<b>Balance at June 30, 2016</b>	<b>6,462,161,040</b>	<b>6,462,161,040</b>

Audited  
By  
2016 -11- 30  
Auditor General South Africa  
IV, Johannesburg Revenue Unit

\* See Note 47

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		1,079,940,044	994,685,262
Grants		252,222,269	222,330,305
Interest income		39,770,333	24,304,500
		<u>1,371,932,646</u>	<u>1,241,320,067</u>
<b>Payments</b>			
Employee costs		(370,155,835)	(346,850,770)
Suppliers		(661,662,577)	(597,742,569)
Finance costs		(8,391,097)	(9,718,816)
Grants paid		(71,439,309)	(63,791,398)
		<u>(1,111,648,818)</u>	<u>(1,018,103,553)</u>
<b>Net cash flows from operating activities</b>	43	<u><b>260,283,828</b></u>	<u><b>223,216,514</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	13	(194,496,286)	(133,614,954)
Disposal of property, plant and equipment	13	2,561,772	2,578,025
Movement in investment property	12	-	(2,438,839)
Purchase of other intangible assets	14	-	(122,489)
Net movement in non-current receivables		95,385	128,572
Net movement in investments		(75,000,000)	(60,000,000)
<b>Net cash flows to investing activities</b>		<u><b>(266,839,129)</b></u>	<u><b>(193,469,685)</b></u>
<b>Cash flows from financing activities</b>			
Repayment of long term liabilities		(11,737,369)	(12,954,731)
Finance lease payments		(179,194)	(211,759)
<b>Net cash flows from financing activities</b>		<u><b>(11,916,563)</b></u>	<u><b>(13,166,490)</b></u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u><b>(18,471,864)</b></u>	<u><b>16,580,339</b></u>
Cash and cash equivalents at the beginning of the year		98,935,106	82,354,766
<b>Cash and cash equivalents at the end of the year</b>	3	<u><b>80,463,242</b></u>	<u><b>98,935,105</b></u>

\* See Note 47

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	766,788,972	6,389,788	773,178,760	728,751,091	(44,427,669)	
Rental of facilities and equipment	35,867,521	(19,110,681)	16,756,840	17,065,885	309,045	
Interest received (trading)	1,967,516	-	1,967,516	2,860,040	892,524	56
Income from agency services	15,295,120	300,000	15,595,120	17,659,784	2,064,664	56
Licences and permits	8,909,130	10,500	8,919,630	8,758,199	(161,431)	
Other income	68,021,321	47,666,583	115,687,904	33,761,383	(81,926,521)	56
Interest received - investment	21,381,260	1,000,000	22,381,260	39,770,333	17,389,073	56
<b>Total revenue from exchange transactions</b>	<b>918,230,840</b>	<b>36,256,190</b>	<b>954,487,030</b>	<b>848,626,715</b>	<b>(105,860,315)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	301,305,502	4,000,000	305,305,502	308,610,464	3,304,962	
<b>Transfer revenue</b>						
Government grants & subsidies	188,465,540	5,357,070	193,822,610	183,431,892	(10,390,718)	
Public contributions and donations	49,842,093	(9,454,775)	40,387,318	60,973,026	20,585,708	
Fines, Penalties and Forfeits	16,949,165	(2,953,000)	13,996,165	17,015,677	3,019,512	56
<b>Total revenue from non-exchange transactions</b>	<b>556,562,300</b>	<b>(3,050,705)</b>	<b>553,511,595</b>	<b>570,031,059</b>	<b>16,519,464</b>	
<b>Total revenue</b>	<b>1,474,793,140</b>	<b>33,205,485</b>	<b>1,507,998,625</b>	<b>1,418,657,774</b>	<b>(89,340,851)</b>	
<b>Expenditure</b>						
Employee related costs	(385,662,127)	5,170,150	(380,491,977)	(363,305,143)	17,186,834	
Remuneration of councillors	(19,698,455)	100,000	(19,598,455)	(19,089,603)	508,852	
Depreciation and amortisation	(157,228,228)	(9,200,000)	(166,428,228)	(146,172,103)	20,256,125	
Impairment loss/ Reversal of impairments	-	-	-	(12,978,003)	(12,978,003)	
Finance costs	(30,890,224)	3,366,262	(27,523,962)	(8,391,097)	19,132,865	56
Lease rentals on operating lease	(1,659,028)	(40,700)	(1,699,728)	(1,021,495)	678,233	
Debt impairment	(17,323,239)	633,185	(16,690,054)	(8,293,281)	8,396,773	56
Collection costs	(2,309,000)	1,160,000	(1,149,000)	(342,658)	806,342	
Repairs and maintenance	(74,127,890)	(3,557,513)	(77,685,403)	(65,327,054)	12,358,349	
Bulk purchases	(380,168,395)	(4,843,687)	(385,012,082)	(379,618,096)	5,393,986	
Contracted services	(43,384,859)	(4,708,812)	(48,093,671)	(38,586,791)	9,506,880	56
Grants and subsidies	(67,662,998)	(3,669,578)	(71,332,576)	(71,439,309)	(106,733)	
Contribution to provisions	(1,890,000)	-	(1,890,000)	(21,460,536)	(19,570,536)	56
Loss on disposal of assets	(5,000)	-	(5,000)	-	5,000	
General expenses	(220,820,569)	(20,343,424)	(241,163,993)	(122,356,416)	118,807,577	56
<b>Total expenditure</b>	<b>(1,402,830,012)</b>	<b>(35,934,117)</b>	<b>(1,438,764,129)</b>	<b>(1,258,381,585)</b>	<b>180,382,544</b>	
<b>Operating surplus</b>	<b>71,963,128</b>	<b>(2,728,632)</b>	<b>69,234,496</b>	<b>160,276,189</b>	<b>91,041,693</b>	
Gain on disposal of assets and liabilities	150,000	-	150,000	289,806	139,806	

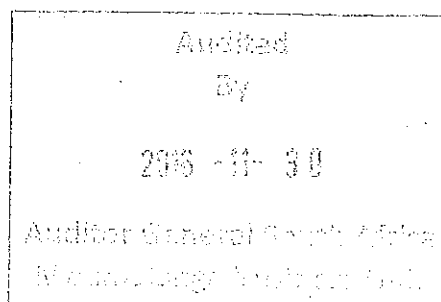
# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Surplus before taxation	72,113,128	(2,728,632)	69,384,496	160,565,995	91,181,499	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	72,113,128	(2,728,632)	69,384,496	160,565,995	91,181,499	
Reconciliation						



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	49,601,406	-	49,601,406	169,156,738	119,555,332
Long term receivables	-	-	-	41,688	41,688
Operating lease asset	-	-	-	2,292,990	2,292,990
Other receivables from exchange transactions	34,136,256	-	34,136,256	25,604,902	(8,531,354)
Other receivables from non-exchange transactions	-	-	-	11,125,056	11,125,056
VAT receivable	-	-	-	6,070,158	6,070,158
Trade receivables from exchange transactions	53,372,498	-	53,372,498	73,504,781	20,132,283
Investments	508,000,000	70,000,000	578,000,000	485,000,000	(93,000,000)
Cash and cash equivalents	72,175,563	(10,499,642)	61,675,921	80,463,242	18,787,321
	<b>717,285,723</b>	<b>59,500,358</b>	<b>776,786,081</b>	<b>853,259,555</b>	<b>76,473,474</b>

##### Non-Current Assets

Investment property	-	-	-	25,941,390	25,941,390
Property, plant and equipment	6,141,354,067	36,550,593	6,177,904,660	6,033,148,455	(144,756,205)
Intangible assets	1,097,135	-	1,097,135	1,284,736	187,601
Long term receivables	-	-	-	21,239	21,239
	<b>6,142,451,202</b>	<b>36,550,593</b>	<b>6,179,001,795</b>	<b>6,060,395,820</b>	<b>(118,605,975)</b>

##### Total Assets

	<b>6,859,736,925</b>	<b>96,050,951</b>	<b>6,955,787,876</b>	<b>6,913,655,375</b>	<b>(42,132,501)</b>
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#### Liabilities

##### Current Liabilities

Long term liabilities	19,018,881	-	19,018,881	10,334,263	(8,684,618)
Finance lease obligation	-	-	-	106,805	106,805
Payables from exchange transactions	165,175,231	-	165,175,231	158,825,850	(6,349,381)
Taxes and transfers payable (non-exchange)	-	-	-	6,796,510	6,796,510
Consumer deposits	76,462,104	-	76,462,104	81,886,507	5,424,403
Employee benefit obligation	-	-	-	2,500,860	2,500,860
Unspent conditional grants and receipts	-	-	-	5,344,905	5,344,905
Provisions	12,365,457	-	12,365,457	1,366,271	(10,999,186)
Long service award	-	-	-	1,830,099	1,830,099
	<b>273,021,673</b>	<b>-</b>	<b>273,021,673</b>	<b>268,992,070</b>	<b>(4,029,603)</b>

##### Non-Current Liabilities

Long term liabilities	295,616,858	(97,976,000)	197,640,858	66,765,898	(130,874,960)
Employee benefit obligation	-	-	-	81,109,921	81,109,921
Provisions	100,829,231	-	100,829,231	18,767,012	(82,062,219)
Long service award	-	-	-	15,859,434	15,859,434
	<b>396,446,089</b>	<b>(97,976,000)</b>	<b>298,470,089</b>	<b>182,502,265</b>	<b>(115,967,824)</b>

##### Total Liabilities

	<b>669,467,762</b>	<b>(97,976,000)</b>	<b>571,491,762</b>	<b>451,494,335</b>	<b>(119,997,427)</b>
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##### Net Assets

	<b>6,190,269,163</b>	<b>194,026,951</b>	<b>6,384,296,114</b>	<b>6,462,161,040</b>	<b>77,864,926</b>
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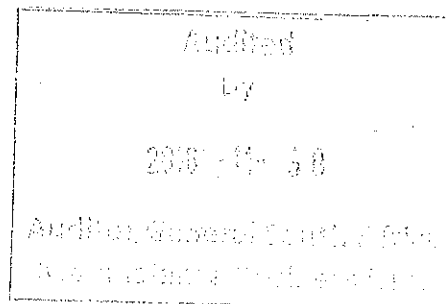
# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Reserves	285,737,789	(148,350,563)	137,387,226	-	(137,387,226)	
Accumulated surplus	5,904,531,374	342,377,514	6,246,908,888	6,462,161,040	215,252,152	
<b>Total Net Assets</b>	<b>6,190,269,163</b>	<b>194,026,951</b>	<b>6,384,296,114</b>	<b>6,462,161,040</b>	<b>77,864,926</b>	



# Steve Tshwete Local Municipality

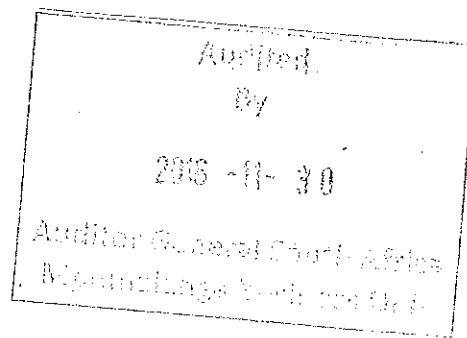
Annual Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments Audited	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	1,213,286,731	36,153,190	1,249,439,921	1,079,940,044	(169,499,877)	
Grants	188,465,540	5,357,070	193,822,610	252,222,269	58,399,659	
Interest income	23,348,776	1,000,000	24,348,776	39,770,333	15,421,557	
	<b>1,425,101,047</b>	<b>42,510,260</b>	<b>1,467,611,307</b>	<b>1,371,932,646</b>	<b>(95,678,661)</b>	
<b>Payments</b>						
Employee costs	-	-	-	(370,155,835)	(370,155,835)	
Suppliers	(1,129,725,413)	125,155,731	(1,004,569,682)	(661,662,577)	342,907,105	
Finance costs	(30,890,224)	2,809,302	(28,080,922)	(8,391,097)	19,689,825	
Other payments	(67,662,998)	3,269,706	(64,393,292)	-	64,393,292	
Grants paid	-	-	-	(71,439,309)	(71,439,309)	
	<b>(1,228,278,635)</b>	<b>131,234,739</b>	<b>(1,097,043,896)</b>	<b>(1,111,648,818)</b>	<b>(14,604,922)</b>	
<b>Net cash flows from operating activities</b>	<b>196,822,412</b>	<b>173,744,999</b>	<b>370,567,411</b>	<b>260,283,828</b>	<b>(110,283,583)</b>	
<b>Cash flows from investing activities</b>						
Proceeds from sale of property, plant and equipment	150,000	330,000	480,000	-	(480,000)	
Disposal of property, plant and equipment	-	-	-	2,561,772	2,561,772	
Movement in non-current receivables	-	-	-	95,385	95,385	
Purchase of financial assets	(54,000,000)	(16,000,000)	(70,000,000)	(75,000,000)	(5,000,000)	
Proceeds from sale of other asset	(236,368,760)	(87,509,196)	(323,877,956)	(194,496,286)	129,381,670	
<b>Net cash flows from investing activities</b>	<b>(290,218,760)</b>	<b>(103,179,196)</b>	<b>(393,397,956)</b>	<b>(266,839,129)</b>	<b>126,558,827</b>	
<b>Cash flows from financing activities</b>						
Borrowings long term	97,976,000	(97,976,000)	-	-	-	
Increase / (decrease) in consumer deposits	5,765,991	(2,847,113)	2,918,878	-	(2,918,878)	
Repayment of borrowing	(16,770,192)	(534,946)	(17,305,138)	(11,737,369)	5,567,769	
Finance lease payments	-	-	-	(179,194)	(179,194)	
<b>Net cash flows from financing activities</b>	<b>86,971,799</b>	<b>(101,358,059)</b>	<b>(14,386,260)</b>	<b>(11,916,563)</b>	<b>2,469,697</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(6,424,549)</b>	<b>(30,792,256)</b>	<b>(37,216,805)</b>	<b>(18,471,864)</b>	<b>18,744,941</b>	
<b>Cash and cash equivalents at the beginning of the year</b>	<b>78,600,112</b>	<b>20,292,614</b>	<b>98,892,726</b>	<b>98,935,106</b>	<b>42,380</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>72,175,563</b>	<b>(10,499,642)</b>	<b>61,675,921</b>	<b>80,463,242</b>	<b>18,787,321</b>	

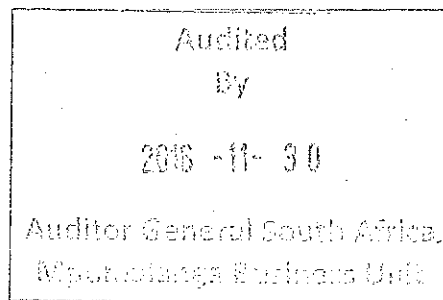




**Steve Tshwete Local Municipality**  
Annual Financial Statements for the year ended June 30, 2016

**Appropriation Statement**

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
<b>2016</b>											
<b>Financial Performance</b>											
Property rates	301,305,502	4,000,000	305,305,502	-	-	305,305,502	308,610,464	-	3,304,962	101 %	102 %
Service charges	766,788,972	6,389,788	773,178,760	-	-	773,178,760	728,751,091	-	(44,427,669)	94 %	95 %
Investment revenue	21,381,260	1,000,000	22,381,260	-	-	22,381,260	39,770,333	-	17,389,073	178 %	185 %
Transfers recognised - operational	126,295,300	100,000	126,395,300	-	-	126,395,300	125,385,666	-	(1,009,634)	99 %	99 %
Other own revenue	147,160,073	25,913,402	173,073,475	-	-	173,073,475	97,410,774	-	(75,662,701)	56 %	66 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1,362,931,107</b>	<b>37,403,190</b>	<b>1,400,334,297</b>	-	-	<b>1,400,334,297</b>	<b>1,299,928,328</b>	-	<b>(100,405,969)</b>	<b>93 %</b>	<b>95 %</b>
Employee costs	(385,662,127)	5,170,150	(380,491,977)	-	-	(380,491,977)	(363,305,143)	-	17,186,834	95 %	94 %
Remuneration of councillors	(19,698,455)	100,000	(19,598,455)	-	-	(19,598,455)	(19,089,603)	-	508,852	97 %	97 %
Debt impairment	(17,323,239)	633,185	(16,690,054)	-	-	(16,690,054)	(8,293,281)	-	8,396,773	50 %	48 %
Depreciation and asset impairment	(157,228,228)	(9,200,000)	(166,428,228)	-	-	(166,428,228)	(159,150,106)	-	7,278,122	96 %	101 %
Finance charges	(30,890,224)	3,366,262	(27,523,962)	-	-	(27,523,962)	(8,391,097)	-	19,132,865	30 %	27 %
Materials and bulk purchases	(380,168,395)	(4,843,687)	(385,012,082)	-	-	(385,012,082)	(379,618,096)	-	5,393,986	99 %	100 %
Transfers and grants	(67,662,998)	(3,669,578)	(71,332,576)	-	-	(71,332,576)	(71,439,309)	-	(106,733)	100 %	106 %
Other expenditure	(344,196,436)	(27,490,359)	(371,686,795)	-	-	(371,686,795)	(249,094,950)	-	122,591,845	67 %	72 %
<b>Total expenditure</b>	<b>(1,402,830,102)</b>	<b>(35,934,027)</b>	<b>(1,438,764,129)</b>	-	-	<b>(1,438,764,129)</b>	<b>(1,258,381,585)</b>	-	<b>180,382,544</b>	<b>87 %</b>	<b>90 %</b>
<b>Surplus/(Deficit)</b>	<b>(39,898,995)</b>	<b>1,469,163</b>	<b>(38,429,832)</b>	-	-	<b>(38,429,832)</b>	<b>41,546,743</b>	-	<b>79,976,575</b>	<b>(108)%</b>	<b>(104)%</b>



## Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

### Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	62,170,240	5,257,070	67,427,310	-		67,427,310	58,046,226		(9,381,084)	86 %	93 %
Contributions recognised - capital and contributed assets	49,842,093	(9,454,775)	40,387,318	-		40,387,318	60,973,026		20,585,708	151 %	122 %
Surplus (Deficit) after capital transfers and contributions	72,113,338	(2,728,642)	69,384,796	-		69,384,796	160,565,995		91,181,199	231 %	223 %
Surplus/(Deficit) for the year	72,113,338	(2,728,642)	69,384,796	-		69,384,796	160,565,995		91,181,199	231 %	223 %
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	236,368,760	87,509,196	323,877,956	-		323,877,956	274,433,242		(49,444,714)	85 %	116 %

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
<b>Cash flows</b>											
Net cash from (used) operating	196,822,412	173,744,999	370,567,411	-		370,567,411	260,283,828		(110,283,583)	70 %	132 %
Net cash from (used) investing	(290,218,760)	(103,179,196)	(393,397,956)	-		(393,397,956)	(266,839,129)		126,558,827	68 %	92 %
Net cash from (used) financing	86,971,799	(101,358,059)	(14,386,260)	-		(14,386,260)	(11,916,563)		2,469,697	83 %	(14) %
Net increase/(decrease) in cash and cash equivalents	(6,424,549)	(30,792,256)	(37,216,805)	-		(37,216,805)	(18,471,864)		18,744,941	50 %	288 %
Cash and cash equivalents at the beginning of the year	78,400,112	20,292,614	98,692,726	-		98,692,726	98,935,106		242,380	100 %	126 %
Cash and cash equivalents at year end	71,975,563	(10,499,642)	61,475,921	-		61,475,921	80,463,242		(18,987,321)	131 %	112 %

Audited  
By  
2016-11-30  
Auditor General South Africa  
Mphahlele S. Mchaneke

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a receivable.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

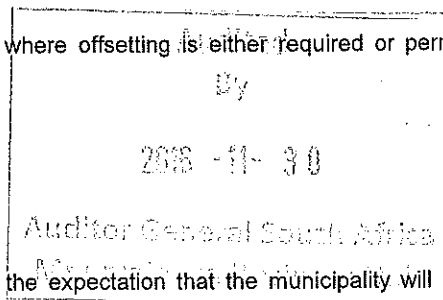
##### Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus/deficit.

##### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

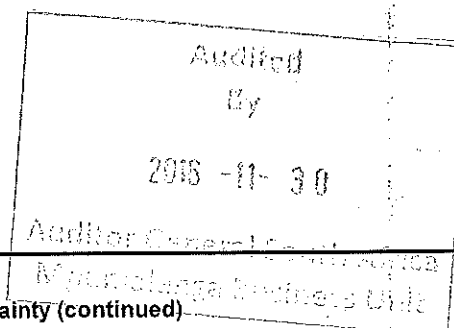
The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies



### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

##### Value in use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates

are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in

use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

##### Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

#### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality.

#### Post-retirement benefits and other long-term benefits

The present value of the post retirement obligation and other long-term employee obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in note 23.

#### Effective interest rate

The municipality used the incremental borrowing rate to discount future cash flows.

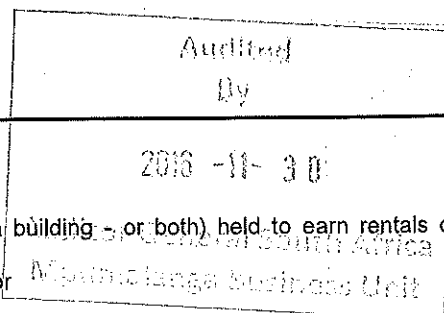
#### Allowance for impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies



### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or for
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that is associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is, subsequent to initial measurement, carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

### 1.4 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	30 - 100 years
Infrastructure	5 - 100 years
Community assets	10 - 100 years
Other property, plant and equipment	2 - 30 years
Housing - properties purchased from previous housing development fund	30 - 100 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located;
- changes in the measurement of an existing decommissioning, restoration and similar liability that result from change in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in discount rate; and
- the obligation the municipality incurs for having used the items during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

### 1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3-10 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

### 1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Operating lease asset	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Long term liabilities	Financial liability measured at amortised cost
Operating lease liability	Financial liability measured at amortised cost

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

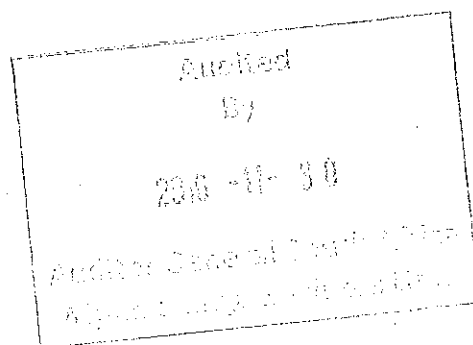
#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

### 1.7 Financial Instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

### 1.7 Financial instruments (continued)

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expired or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.8 Statutory receivables

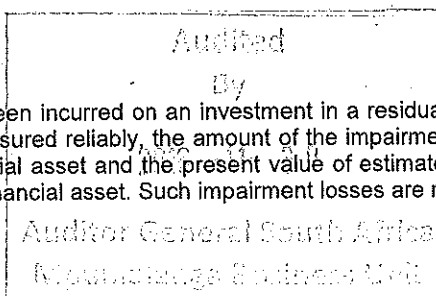
#### Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of the Standard of GRAP on Statutory Receivables) means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

### 1.8 Statutory receivables (continued)

#### Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the accounting policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the accounting policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the accounting policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the accounting policy on Revenue from exchange transactions or the accounting policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

#### Other charges

Where the municipality is required or entitled to levy additional charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (taxes and transfers).

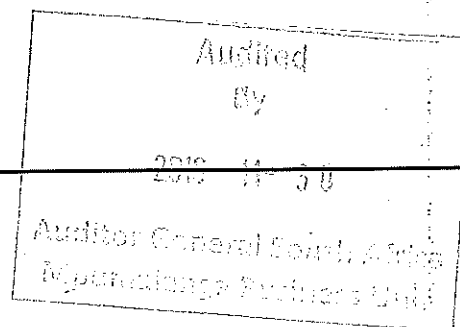
#### Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation.
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

### 1.8 Statutory receivables (continued)

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable, or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

### Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

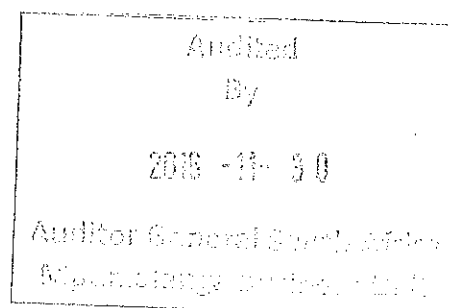
The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

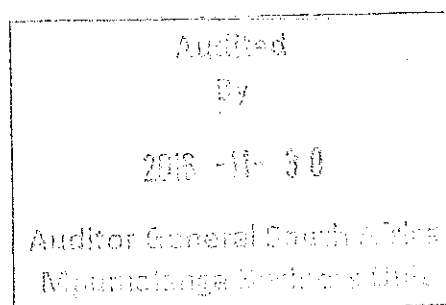
An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.





# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.11 Impairment of non-cash-generating assets

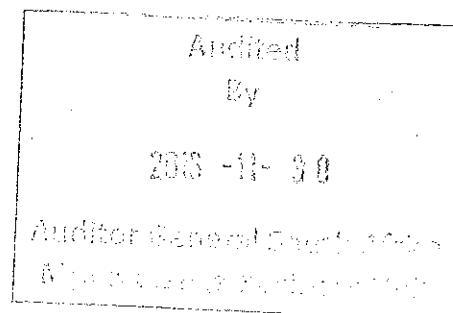
Non-cash-generating assets are assets other than cash-generating assets.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

### 1.11 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.12 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.13 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

### 1.14 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

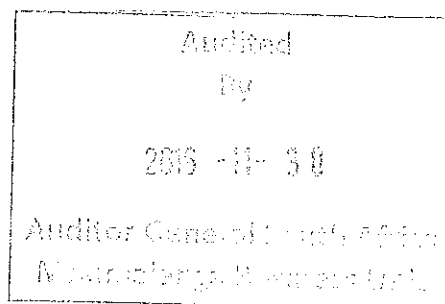
#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual payments are recognised as an operating lease asset or liability

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.15 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered a service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

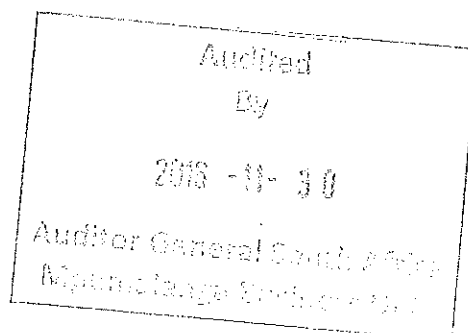
The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.15 Employee benefits (continued)

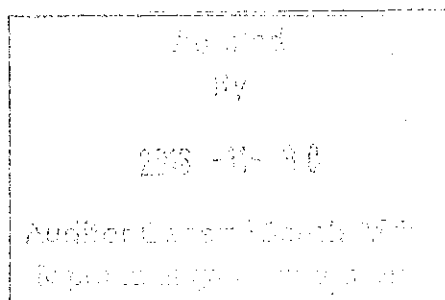
#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered services to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

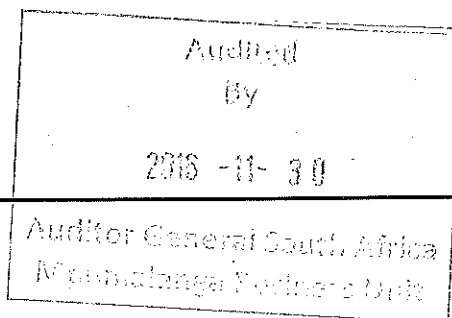
Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the obligation.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies



### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise of assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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2016-11-30

### 1.15 Employee benefits (continued)

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

### 1.15 Employee benefits (continued)

#### Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities.

Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

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#### Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes (as a minimum):

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

### 1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

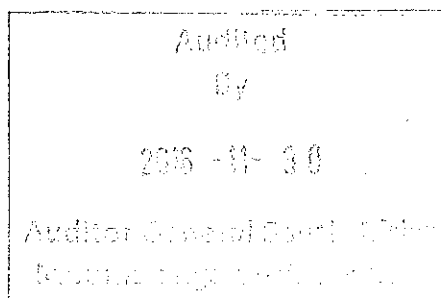
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is an:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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Mpumalanga Business Unit

### 1.16 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, are accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.17 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.17 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Audited By 2015-11-30 Auditor General and CPA Municipal Finance Officer
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# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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Non-exchange Revenue Unit

### 1.18 Revenue from non-exchange transactions (continued)

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

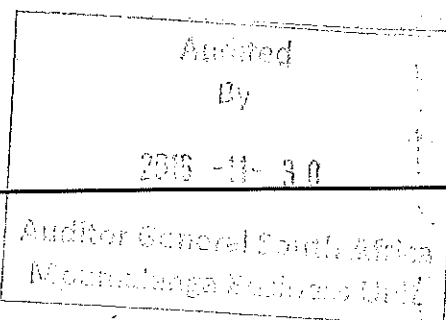
#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies



### 1.18 Revenue from non-exchange transactions (continued)

#### Services in-kind

Services in-kind that are significant to the municipality's operations and/or service delivery objectives are recognised as assets and the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

#### Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

### 1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.20 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given rise to the transfer occurred.

### 1.21 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 47 for detail.

### 1.23 Unauthorised expenditure

Unauthorised expenditure means:

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

Audited

By

2016 -11- 30

Auditor General South Africa

### 1.23 Unauthorised expenditure (continued)

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.26 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01-Jun-15 to 30-Jun-16.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

### 1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

# Steve Tshwete Local Municipality

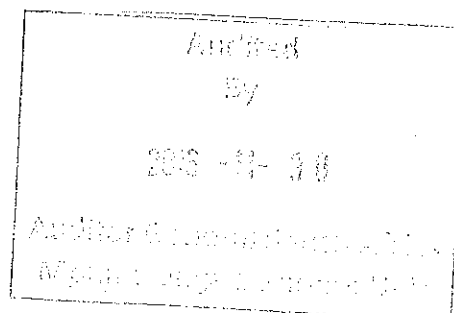
Annual Financial Statements for the year ended June 30, 2016

## Accounting Policies

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### 1.28 Events after reporting date (continued)

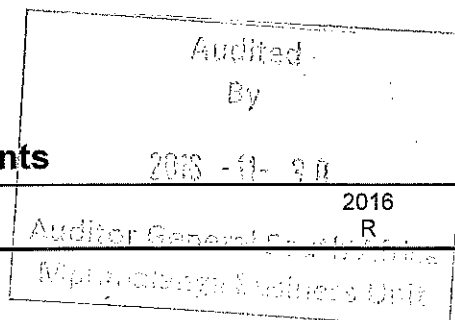
The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements



### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### GRAP 21 (as amended 2015): Impairment of Non-cash-generating Assets

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets;
- the indicators of internal sources of information were amended to include obsolescence as an indication that an asset may be impaired. In line with the amendments made to IPSAS 21 on Impairment of Non-cash-generating Assets (IPSAS 21) in 2011, an amendment has been made to include another indicator of impairment i.e., where an asset's useful life has been reassessed as finite rather than indefinite;
- where the recoverable service amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples of indications of impairment and measurement of impairment losses have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after April 01, 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

##### GRAP 26 (as amended 2015): Impairment of Cash-generating Assets

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets and cash generating unit;
- in line with the amendments made to IPSAS 26 on Impairment of Cash-generating Assets (IPSAS 26) in 2010, an amendment has been made to include another indicator of impairment in relation to the internal sources of information;
- where the recoverable amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples on using present value techniques to measure value in use and illustrative guidance have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after April 01, 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

##### Improvements to the Standards of GRAP (2013)



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

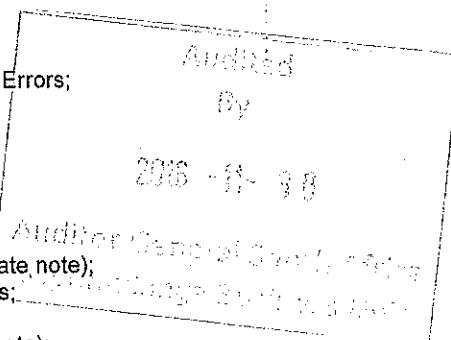
2016  
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### 2. New standards and interpretations (continued)

Amendments were made to the following standards of GRAP:

- GRAP 1 - Presentation of Financial Statements;
- GRAP 2 - Cash Flow Statements;
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors;
- GRAP 7 - Investments in Associates;
- GRAP 10 - Financial Reporting in Hyperinflationary Economies;
- GRAP 11 - Construction Contracts;
- GRAP 13 - Leases;
- GRAP 17 - Property, Plant and Equipment;
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets;
- GRAP 21 - Impairment of Non-cash-generating Assets (refer to separate note);
- GRAP 24 - Presentation of Budget Information in Financial Statements;
- GRAP 25 - Employee Benefits;
- GRAP 26 - Impairment of Cash-generating Assets (refer to separate note);
- GRAP 31 - Intangible Assets;
- GRAP 103 - Heritage Assets; and
- GRAP 104 - Financial Instruments.



The amendments relate mainly to editorial and other changes to the original text to ensure consistency with other Standards of GRAP and deletion of the appendices with illustrative guidance and examples from the standards, as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the improvements is for years beginning on or after April 01, 2015.

The municipality has adopted the improvements for the first time in the 2016 annual financial statements.

The impact of the improvements is not material.

#### GRAP 23 (as amended 2015): Revenue From Non-exchange Transactions

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- the scope paragraph has been amended to exclude non-exchange revenue from construction contracts from this Standard;
- commentary has been added to clarify that discounts, volume rebates or other reductions in the quoted price of assets are exchange transactions that should be treated in accordance with the Standard of GRAP on Revenue from Exchange Transactions;
- the Standard was amended to make it mandatory for entities to recognise services in-kind to the extent that the services in-kind are significant to an entity's operations and/or service delivery objectives and to the extent that the recognition criteria have been met;
- commentary has been added to clarify that services in-kind are not limited to the provision of services by individuals but also include the right to use assets. Examples have been added to illustrate this amendment; and
- the appendix with illustrative examples has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after April 01, 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

#### GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting municipality's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

A municipality that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting municipality) shall apply this standard in:

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 2. New standards and interpretations (continued)

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the municipality. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

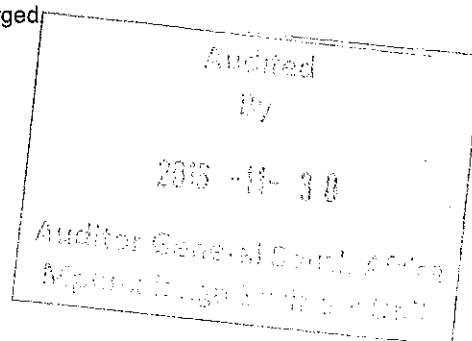
- Control;
- Related party transactions; and
- Remuneration of management

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

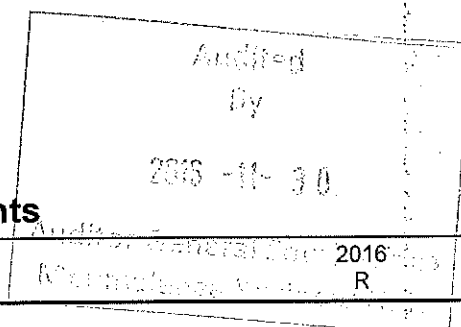
The municipality has early adopted the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements



### 2. New standards and interpretations (continued)

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

#### GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

Public Private Partnership agreements that are governed and regulated in terms of the MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality has early adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

#### GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables, because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality has early adopted the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

#### IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 2. New standards and interpretations (continued)

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The impact of the standard is not material.

#### GRAP 16 (as amended 2015): Investment Property

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- the encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements is now required.

The effective date of the standard is for years beginning on or after April 01, 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 17 (as amended 2015): Property, Plant and Equipment

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements are now required.

The effective date of the standard is for years beginning on or after April 01, 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 109: Accounting by Principals and Agents

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 2. New standards and interpretations (continued)

The objective of this Standard is to outline principles to be used by the municipality to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when the municipality is a principal or an agent.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2016 or later periods:

### 2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2016 or later periods but are not relevant to its operations:

### GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which the municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

This Standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more presentation and disclosure than is currently provided in the annual financial statements.

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	42,380	42,380
Bank balances	80,420,862	98,892,726
	<u>80,463,242</u>	<u>98,935,106</u>

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R			2015 R		
<b>3. Cash and cash equivalents (continued)</b>						
<b>The municipality had the following bank accounts</b>						
Account number / description	Bank statement balances			Cash book balances		
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2016	June 30, 2015	June 30, 2014
ABSA Bank (Nelspruit)-cheque account 1040-000-077	72,632,713	89,450,780	80,877,105	54,493,222	78,503,556	68,059,552
ABSA Bank (Nelspruit)-cheque account 4078-303-563	25,274,564	20,456,780	14,386,659	25,927,640	20,389,170	14,252,833
<b>Total</b>	<b>97,907,277</b>	<b>109,907,560</b>	<b>95,263,764</b>	<b>80,420,862</b>	<b>98,892,726</b>	<b>82,312,385</b>

### 4. Consumer receivables from exchange transactions

#### Gross balances

Rates	39,362,816	30,497,349
Electricity	24,579,010	22,703,557
Water	10,462,638	8,387,166
Sewerage	7,389,419	6,108,454
Refuse	6,477,458	5,477,997
Housing rental	52,288	52,856
VAT, interest and deposits	11,157,742	9,540,171
	<b>99,481,371</b>	<b>82,767,550</b>

#### Less: Allowance for impairment

Rates	(10,278,424)	(8,192,728)
Electricity	(6,418,074)	(6,099,033)
Water	(2,732,006)	(2,253,110)
Sewerage	(1,929,526)	(1,640,962)
Refuse	(1,691,395)	(1,471,597)
Housing rental	(13,653)	-
VAT, interest and deposits	(2,913,511)	(2,577,049)
	<b>(25,976,589)</b>	<b>(22,234,479)</b>

#### Net balance

Rates	29,084,392	22,304,618
Electricity	18,160,935	16,604,524
Water	7,730,633	6,134,057
Sewerage	5,459,893	4,467,493
Refuse	4,786,063	4,006,400
Housing rental	38,634	67,139
VAT, interest and deposits	8,244,231	6,948,838
	<b>73,504,781</b>	<b>60,533,069</b>

#### Included in above is receivables from exchange transactions

Electricity	18,160,935	16,604,524
Water	7,730,633	6,134,057
Sewerage	5,459,893	4,467,493
Refuse	4,786,063	4,006,400
Housing rental	38,634	67,139
VAT, interest and deposits	8,244,231	6,948,838
	<b>44,420,389</b>	<b>38,228,451</b>

#### Included in above is receivables from non-exchange transactions (taxes and transfers)

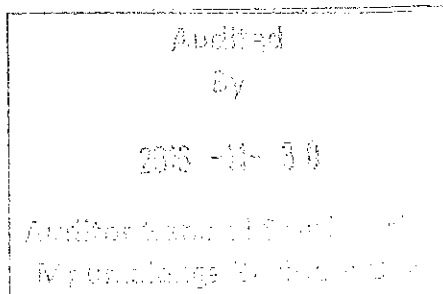
Rates	29,084,392	22,304,618
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# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>4. Consumer receivables from exchange transactions (continued)</b>		
<b>Net balance</b>	<b>73,504,781</b>	<b>60,533,069</b>
<b>Rates</b>		
Current (0 -30 days)	18,940,886	17,519,452
31 - 60 days	2,050,054	1,951,172
61 - 90 days	2,569,144	1,057,365
91 - 120 days	1,106,046	757,221
121 - 150 days	973,907	715,560
> 151 days	13,722,779	8,496,578
	<b>39,362,816</b>	<b>30,497,348</b>
<b>Electricity</b>		
Current (0 -30 days)	20,102,232	19,695,968
31 - 60 days	924,814	689,954
61 - 90 days	757,751	384,200
91 - 120 days	308,982	225,564
121 - 150 days	217,776	162,471
> 151 days	2,267,456	1,545,400
	<b>24,579,011</b>	<b>22,703,557</b>
<b>Water</b>		
Current (0 -30 days)	5,012,439	4,510,539
31 - 60 days	528,103	416,201
61 - 90 days	701,784	298,749
91 - 120 days	327,081	188,835
121 - 150 days	214,514	208,463
> 151 days	3,678,716	2,764,380
	<b>10,462,637</b>	<b>8,387,167</b>
<b>Sewerage</b>		
Current (0 -30 days)	3,944,238	3,662,929
31 - 60 days	418,951	359,794
61 - 90 days	456,167	265,533
91 - 120 days	197,910	146,796
121 - 150 days	161,421	126,132
> 151 days	2,210,732	1,547,270
	<b>7,389,419</b>	<b>6,108,454</b>
<b>Refuse</b>		
Current (0 -30 days)	3,583,392	3,418,120
31 - 60 days	416,111	334,817
61 - 90 days	388,436	205,644
91 - 120 days	158,453	130,328
121 - 150 days	133,917	110,829
> 151 days	1,797,149	1,278,260
	<b>6,477,458</b>	<b>5,477,998</b>

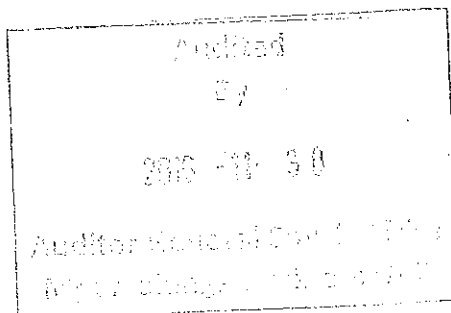


# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>4. Consumer receivables from exchange transactions (continued)</b>		
<b>Housing rental</b>		
Current (0 -30 days)	-	-
31 - 60 days	44,604	33,717
61 - 90 days	2,654	2,751
91 - 120 days	1,785	590
121 - 150 days	3,246	15,797
> 151 days	-	-
	<b>52,289</b>	<b>52,855</b>
<b>VAT, interest and deposits</b>		
Current (0 -30 days)	5,335,794	5,353,636
31 - 60 days	516,829	508,182
61 - 90 days	688,898	355,630
91 - 120 days	317,186	216,699
121 - 150 days	256,256	204,237
> 151 days	4,042,779	2,901,787
	<b>11,157,742</b>	<b>9,540,171</b>
<b>Summary of receivables by customer classification</b>		
<b>Households</b>		
Current (0 -30 days)	20,089,848	29,549,624
31 - 60 days	2,314,315	2,342,754
61 - 90 days	1,535,967	1,600,005
91 - 120 days	1,151,415	997,427
121 - 150 days	897,084	969,118
> 151 days	12,409,474	11,994,512
	<b>38,398,103</b>	<b>47,453,440</b>
Less: Allowance for impairment	<b>(10,026,518)</b>	<b>(6,048,158)</b>
	<b>28,371,585</b>	<b>41,405,282</b>
<b>Business</b>		
Current (0 -30 days)	34,709,237	22,869,805
31 - 60 days	1,862,457	1,439,481
61 - 90 days	3,584,596	752,779
91 - 120 days	894,480	498,213
121 - 150 days	782,271	498,436
> 151 days	12,142,803	5,623,496
	<b>53,975,844</b>	<b>31,682,210</b>
Less: Allowance for impairment	<b>(14,094,180)</b>	<b>(1,460,878)</b>
	<b>39,881,664</b>	<b>30,221,332</b>
<b>Government</b>		
Current (0 -30 days)	2,119,897	1,741,218
31 - 60 days	722,692	511,604
61 - 90 days	444,271	217,085
91 - 120 days	371,548	170,395
121 - 150 days	281,682	75,936
> 151 days	3,167,334	915,667
	<b>7,107,424</b>	<b>3,631,905</b>
Less: Allowance for impairment	<b>(1,855,891)</b>	<b>(73,220)</b>
	<b>5,251,533</b>	<b>3,558,685</b>





# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>4. Consumer receivables from exchange transactions (continued) -</b>		
<b>Total</b>		
Current (0 -30 days)	56,918,981	54,160,601
31 - 60 days	4,899,464	4,293,837
61 - 90 days	5,564,834	2,569,871
91 - 120 days	2,417,442	1,666,033
121 - 150 days	1,961,037	1,543,489
> 151 days	27,719,612	18,533,675
	<u>99,481,370</u>	<u>82,767,506</u>
Less: Allowance for impairment	(25,976,589)	(22,234,479)
	<u><b>73,504,781</b></u>	<u><b>60,533,027</b></u>

As of 30 June 2016, consumer receivables of R44 203 221 (2015: R30 964 003) were impaired and provided for.

The amount of the provision was R25 976 589 as of 30 June 2016 (2015: R22 234 479).

The ageing of these consumer receivables is as follows:

<b>Total consumer receivables past due and impaired</b>		
Current (0 -30 days)	3,528,986	3,312,079
31 - 60 days	3,627,833	3,547,395
61 - 90 days	5,452,023	2,557,357
91 - 120 days	2,315,788	1,655,784
121 - 150 days	1,890,015	1,533,961
> 151 days	27,388,576	18,357,427
	<u><b>44,203,221</b></u>	<u><b>30,964,003</b></u>

### Reconciliation of allowance for impairment

Balance at beginning of the year	(22,234,479)	(24,628,040)
Contributions to allowance	(3,742,110)	2,339,500
Debt impairment written off against allowance	-	54,061
	<u><b>(25,976,589)</b></u>	<u><b>(22,234,479)</b></u>

### 5. Other receivables from exchange transactions

Accrued interest	13,888,744	4,941,930
Consumer debtors	1,251,924	1,293,862
Deposits	1,073,672	1,065,192
Dumping site levies	257,221	202,921
Insurance	322,862	1,675,886
Leases	6,167,243	1,738,292
Main service contribution	4,895,891	3,352,713
Sundry receivables	2,850,633	3,947,656
Less: Allowance for impairment	(5,103,288)	(5,886,615)
	<u><b>25,604,902</b></u>	<u><b>12,331,837</b></u>

### Other receivables pledged as security

None of the other receivables were pledged as security.

### Other receivables past due but not impaired

Other receivables which are less than 1 month past due are not considered to be impaired. At 30 June 2016 and 30 June 2015, all accounts past due were impaired.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

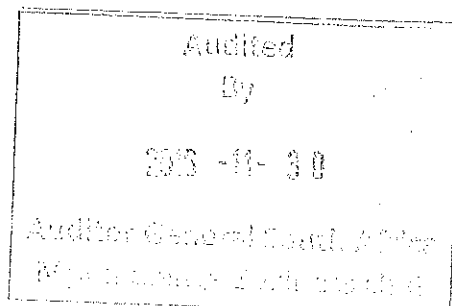
	2016 R	2015 R
<b>5. Other receivables from exchange transactions (continued)</b>		
<b>Other receivables impaired</b>		
As of June 30, 2016, other receivables of R 6,157,336 (2015: R 6,692,211) were impaired and provided for.		
The amount of the provision was R 5,103,288 as of June 30, 2016 (2015: R 5,886,615).		
The ageing of these other receivables is as follows:		
3 to 6 months	2,705,072	2,847,158
Over 6 months	3,452,264	3,845,053
<b>Reconciliation of provision for impairment of other receivables</b>		
Opening balance	(5,886,615)	(6,815,600)
Provision for impairment	703,564	838,793
Amounts written off as uncollectible	79,763	90,192
	<b>(5,103,288)</b>	<b>(5,886,615)</b>
The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 37). For the year under review an amount of R79 763 was written off as uncollectible (2015: R90 192). The amounts are generally written off when there is no expectation of recovering additional cash.		
<b>6. Other receivables from non-exchange transactions</b>		
Fines	38,282,560	26,514,960
Government grants and subsidies	-	962,490
Health subsidy	-	11,462,100
Less: Allowance for impairment	(27,157,504)	(22,003,021)
	<b>11,125,056</b>	<b>16,936,529</b>
<b>Other receivables from non-exchange transactions pledged as security</b>		
None of the trade and other receivables were pledged as security.		
<b>Other receivables from non-exchange transactions past due but not impaired</b>		
Receivables from non-exchange transactions which are less than 1 month past due are not considered to be impaired. At 30 June 2016 and 30 June 2015, all accounts past due were impaired.		
<b>Other receivables from non-exchange transactions impaired</b>		
As of June 30, 2016, receivables from non-exchange transactions of R38 282 560 (2015: R26,514,959) were impaired and provided for.		
The amount of the provision was R27,157,504 as of June 30, 2016 (2015: R22,003,020).		
<b>Reconciliation of allowance for impairment</b>		
Opening balance	(22,003,021)	(16,766,364)
Provision for impairment	(5,154,483)	(5,236,657)
	<b>(27,157,504)</b>	<b>(22,003,021)</b>
<b>7. VAT receivable</b>		
VAT	6,070,158	31,292,987
The municipality is registered for VAT on the payment basis.		

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>8. Operating lease asset</b>		
<b>Current asset</b>		
Opening balance	2,321,747	3,342,169
Movement for the year	(28,757)	(1,020,422)
	<b>2,292,990</b>	<b>2,321,747</b>
<b>Minimum lease income due</b>		
- within one year	9,831,803	13,977,126
- second to fifth year	822,467	9,753,753
- after five years	196,129	192,120
	<b>10,850,399</b>	<b>23,922,999</b>



Included in the operating lease revenue are the following significant contracts:

1. Shanduka Coal - lease of farms in Middelburg.  
The contract expires on 28 February 2017. The contract escalates annually based on the CPI.  
Actual income levied 2015/16 R 12 736 497  
Expected levy income 2016/17 R 8 714 445
2. Pole Add SA (Pty) - manufacture, erect, maintain street identification signs incorporating with advertisement.  
The contract expires on 30 September 2016. The contract escalates annually with 5%.  
Actual income levied 2015/16 R 105 952  
Expected levy income 2016/17 R 26 807  
Annual straightlining R 86 938
3. MTN (PTY) LTD - rental of the remainder of portion 27 of the farm Middelburg & Townlands 287 JS for telecommunications base station.  
The contract expires on 31 August 2016. The contract escalates annually with 10%.  
Actual income levied 2015/16 R 40 040  
Expected levy income 2016/17 R 6 776  
Annual straightlining R 37 072
4. Optimun Coal Mine (Pty) Ltd - rental of the remainder of portion 27 of the farm Middelburg Town and Townlands 287 JS.  
The contract expires on 31 March 2018. The contract escalates annually with 10%.  
Actual income levied 2015/16 R 103 680  
Expected levy income 2016/17 R 92 928  
Annual straightlining R 91 091
5. Lean Enterprise Acceleration Programme - rental of erf 11848 Mhluzi ext 7.  
The contract expires on 31 May 2017. The contract escalates annually with 10%.  
Actual income levied 2015/16 R 98 640  
Expected levy income 2016/17 R 99 462  
Annual straightlining R 113 066

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

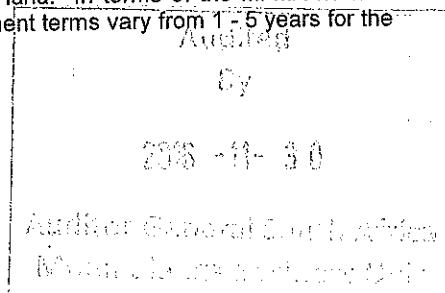
	2016 R	2015 R
<b>8. Operating lease asset (continued)</b>		
6. Kanjani Trading (Pty) Ltd - rental of the remainder of portion 6 of the farm Rockdale 442 JS. The contract expires on 30 September 2016. The contract escalates annually with 10%. Actual income levied 2015/16 Expected levy income 2016/17	R 45 636 R 12 550	
7. Mhluzi police station - rental of erf 2086 Mhluzi. The contract expires on 30 November 2016. The contract is renewed on an annual basis. Actual income levied 2015/16 Expected levy income 2016/17	R 168 895 R 73 144	
8. Mhluzi post office - rental of erf 2401 Mhluzi. The contract expires on 31 October 2016. The contract is renewed on an annual basis. Actual income levied 2015/16 Expected levy income 2016/17	R 66 909 R 23 501	
9. Gerrie Gerrits t/a Pienaarsdam Pleasure - rental of farm Vaalbank 289 portions 7, 8 and 9. The contract expires on 31 January 2017. The contract is renewed on an annual basis. Actual income levied 2015/16 Expected levy income 2016/17	R 48 249 R 29 721	
<b>9. Inventories</b>		
Land	151,323,617	140,561,175
RDP houses	128,952	128,952
Consumable stores	17,246,909	18,227,450
Water	457,260	702,787
	<b>169,156,738</b>	<b>159,620,364</b>
<b>9.1 Inventory shortages and surpluses</b>		
Inventory shortages written off during the year	(109,379)	(148,992)
Inventory surpluses for the year	85,458	123,237
	<b>(23,921)</b>	<b>(25,755)</b>
<b>Inventory pledged as security</b>		
During the year no inventory was pledged as security.		
<b>10. Investments</b>		
<b>At amortised cost</b>		
ABSA Bank	97,000,000	72,000,000
First National Bank	72,000,000	72,000,000
Investec Bank	72,000,000	72,000,000
Nedbank	97,000,000	72,000,000
Standard Bank	97,000,000	72,000,000
Investec Call Account	50,000,000	50,000,000
	<b>485,000,000</b>	<b>410,000,000</b>

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>11. Long term receivables</b>		
<b>At amortised cost</b>		
Sale of erven	62,927	158,312
Loans were given at a low interest rate of 7.5% per annum to encourage development through the sale of vacant land. In terms of the MFMA no new loans are granted. The remaining repayment terms vary from 1 - 5 years for the different contracts.		
<b>Non-current assets</b>		
At amortised cost	21,239	47,532
<b>Current assets</b>		
At amortised cost	41,688	110,780



## 12. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Property - land	25,941,390	-	25,941,390	25,922,685	-	25,922,685

### Reconciliation of investment property - 2016

	Opening balance	Transfers	Total
Property - land	25,922,685	18,705	25,941,390

### Reconciliation of investment property - 2015

	Opening balance	Total
Property - land	25,922,685	25,922,685

### Pledged as security

None of the above investment property have been pledged as security.

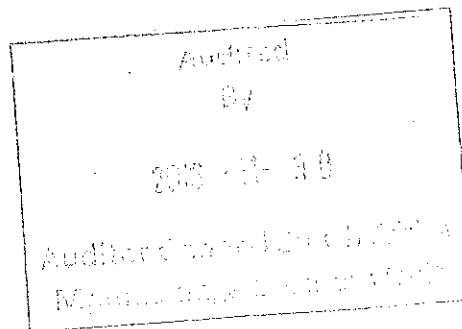
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

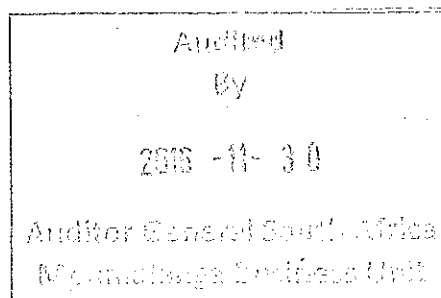
# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	309,868,340	(109,739,641)	200,128,699	301,330,489	(102,658,720)	198,671,769
Community	745,621,745	(246,222,828)	499,398,917	734,083,564	(229,050,426)	505,033,138
Housing - property purchased previously from housing development fund	6,742,664	(4,960,000)	1,782,664	6,742,664	(4,820,400)	1,922,264
Infrastructure	5,485,637,672	(2,662,090,711)	2,823,546,961	5,279,169,165	(2,546,491,987)	2,732,677,178
Land	2,397,386,468	-	2,397,386,468	2,397,964,576	-	2,397,964,576
Other property, plant and equipment	273,182,068	(162,277,317)	110,904,751	246,909,331	(144,669,239)	102,240,092
<b>Total</b>	<b>9,218,438,957</b>	<b>(3,185,290,497)</b>	<b>6,033,148,460</b>	<b>8,966,199,789</b>	<b>(3,027,690,772)</b>	<b>5,938,509,017</b>





## Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

### Notes to the Annual Financial Statements

Figures in Rand

#### 13. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Buildings	198,671,769	8,537,851	-	-	(6,990,844)	(90,077)	200,128,699
Community	505,033,136	11,557,371	(1,936)	-	(15,835,576)	(1,354,078)	499,398,917
Housing - property purchased previously from housing development fund	1,922,264	-	-	-	(139,600)	-	1,782,664
Infrastructure	2,732,677,178	206,468,507	-	-	(105,615,161)	(9,983,563)	2,823,546,961
Land	2,397,964,576	20,118,350	(1,716,429)	(18,980,029)	-	-	2,397,386,468
Other property, plant and equipment	102,240,092	27,748,556	(553,601)	-	(16,980,014)	(1,550,282)	110,904,751
	<b>5,938,509,015</b>	<b>274,430,635</b>	<b>(2,271,966)</b>	<b>(18,980,029)</b>	<b>(145,561,195)</b>	<b>(12,978,000)</b>	<b>6,033,148,460</b>

##### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Buildings	201,219,305	5,006,156	-	-	(7,174,567)	(379,125)	198,671,769
Community	511,050,731	12,748,689	(21,928)	-	(16,157,872)	(2,586,484)	505,033,136
Housing - property purchased previously from housing development fund	2,061,864	-	-	-	(139,600)	-	1,922,264
Infrastructure	2,613,051,554	224,770,339	-	-	(103,418,167)	(1,726,548)	2,732,677,178
Land	2,483,732,085	1,475,519	-	(87,243,028)	-	-	2,397,964,576
Other property, plant and equipment	102,945,757	23,245,101	(2,311,722)	-	(21,170,250)	(468,794)	102,240,092
	<b>5,914,061,296</b>	<b>267,245,804</b>	<b>(2,333,650)</b>	<b>(87,243,028)</b>	<b>(148,060,456)</b>	<b>(5,160,951)</b>	<b>5,938,509,015</b>

##### Pledged as security

None of the above property, plant and equipment have been pledged as security.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 13. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	110,871,813	460,902	1,782,613	113,115,328
Additions/capital expenditure	67,232,233	318,650	3,076,071	70,626,954
Transferred to completed items	(83,107,160)	(460,902)	(19,478)	(83,587,540)
	<b>94,996,886</b>	<b>318,650</b>	<b>4,839,206</b>	<b>100,154,742</b>

#### Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	86,662,585	8,786,414	2,126,521	97,575,520
Additions/capital expenditure	37,112,827	460,902	19,478	37,593,207
Transferred to completed items	(12,873,599)	(8,786,414)	(363,386)	(22,023,399)
	<b>110,901,813</b>	<b>460,902</b>	<b>1,782,613</b>	<b>113,145,328</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 14. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	7,266,341	(5,981,605)	1,284,736	7,266,341	(5,370,697)	1,895,644

#### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software, other	1,895,644	(610,908)	1,284,736

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	2,832,014	125,018	(2,524)	(1,058,864)	1,895,644

#### Pledged as security

None of the above intangible assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>15. Payables from exchange transactions</b>		
Trade payables	92,755,536	121,730,948
Consumer receivables paid in advance	6,827,040	6,993,234
Pre-paid meter sales in advance	3,667,552	3,811,272
Retentions payable	24,610,553	25,060,367
Staff leave	25,877,249	23,002,232
Sundry receivables paid in advance	584,476	604,365
Third party pre-paid sales in advance	2,980,639	1,777,688
Other payables	1,522,810	2,079,195
	<b>158,825,855</b>	<b>185,059,301</b>
<b>16. Taxes and transfers payable (non-exchange)</b>		
Housing accreditation grant	1,091,332	1,343,965
Informal housing grant (RDP)	139,415	139,415
Payable to National Treasury	5,351,354	633,068
Other government grants	214,409	214,409
	<b>6,796,510</b>	<b>2,330,857</b>
<b>17. Consumer deposits</b>		
Electricity and water	62,500,256	55,787,172
Sundry	19,386,251	16,165,034
	<b>81,886,507</b>	<b>71,952,206</b>
No interest is paid on deposits.		
Guarantees hold in lieu of electricity and water deposits for 2016 R7 108 889 (2015: R6 919 889).		
<b>18. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	110,033	191,643
- in second to fifth year inclusive	-	111,169
	110,033	302,812
less: future finance charges	(3,228)	(21,329)
<b>Present value of minimum lease payments</b>	<b>106,805</b>	<b>281,483</b>
<b>Present value of minimum lease payments due</b>		
- within one year	106,805	173,542
Non-current liabilities	-	112,457
Current liabilities	106,805	173,542
	<b>106,805</b>	<b>285,999</b>

It is municipality policy to lease certain photo copiers under finance leases.

The average lease term was 3 - 5 years and the average effective borrowing rate was between 9% and 15%.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 13.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>19. Unspent conditional grants and receipts</b>		
Unspent conditional grants and receipts comprises of:		
Informal housing grant (RDP)	1,993,207	1,993,207
Integrated national electricity programme	3,351,698	-
	<b>5,344,905</b>	<b>1,993,207</b>

See note 30 for reconciliation of grants from National/Provincial Government.

## 20. Provisions

### Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Landfill rehabilitation	14,817,363	3,787,334	-	18,604,697
Performance bonus	2,088,843	1,031,586	(2,088,853)	1,031,576
Church erven	434,050	162,320	(99,360)	497,010
	<b>17,340,256</b>	<b>4,981,240</b>	<b>(2,188,213)</b>	<b>20,133,283</b>

### Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Landfill rehabilitation	5,966,069	8,851,294	-	-	14,817,363
Performance bonus	6,538,904	948,426	(2,227,838)	(3,170,649)	2,088,843
Church erven	266,789	334,690	(167,429)	-	434,050
	<b>12,771,762</b>	<b>10,134,410</b>	<b>(2,395,267)</b>	<b>(3,170,649)</b>	<b>17,340,256</b>

Non-current liabilities	18,767,012	14,782,318
Current liabilities	1,366,271	2,557,938
	<b>20,133,283</b>	<b>17,340,256</b>

### Environmental rehabilitation provision

The landfill rehabilitation is created for the rehabilitation of the current operational site which is evaluated at each year-end to reflect the best estimate at reporting date. The site under consideration is the Middelburg landfill site. The valuation for the landfill site was performed by Mr Seakle Godschalk Pr Sci Nat. from Environmental and Sustainability Solutions CC. Mr Godschalk is a registered professional environmental scientist with the South African Council for Natural Scientist Professions as well as the Southern African Institute of Ecologists and Environmental Scientists. Mr Godschalk is also a member of the Institute of Municipal Finance Officers.

Key financial assumptions used in this calculation were a CPI of 6.206%, a discount rate of 8.4564% and therefore a net effective discount rate of 2.25%.

The 2016 amount of the discounted landfill closure provision of R18 604 697 represents an increase of R3 787 334 over the provision of R14 817 363 in the previous financial year. Composition of this change relate to changes in the CPI, discount rate and unit costs. The interest charge relating to the assessment amounts to R945 437.

The 2016 amount is a discounted amount based on the expected remaining life of the landfill site and based on the size of the area that had been used for waste disposal as at 30 June 2016. The size of the Middelburg landfill site used up until now is approximately 6.778 ha. The remaining life of the landfill is estimated at 10 years.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>20. Provisions (continued)</b>		
<b>Performance bonus</b>		
The provision is to provide for performance bonuses of the section 57 employees and other senior managers where applicable.		
The provision is calculated at 14% of the total remuneration in terms of the performance agreements at reporting date which is usually within one year.		
<b>Church erven</b>		
The provision on church erven is for the obligation the municipality have to pay 25% of the purchase price back to the church once the property is fully developed. The provision is evaluated at year-end to reflect the best estimate at reporting date.		
<b>21. Long term liabilities</b>		
<b>At amortised cost</b>		
Standard Bank	-	2,410,775
Interest at 9.62% redeemable on 01/09/2015		
Infrastructure Finance Corporation	19,939,438	22,298,093
Interest at 9.59% redeemable on 30/06/2022		
Infrastructure Finance Corporation	22,132,443	24,289,855
Interest at 9.29% redeemable on 30/06/2023		
Infrastructure Finance Corporation	24,149,782	26,132,618
Interest at 9.02% redeemable on 30/06/2024		
First National Bank	10,878,498	13,706,189
Interest at 12.50% redeemable on 30/06/2019		
	<b>77,100,161</b>	<b>88,837,530</b>
<b>Total other financial liabilities</b>	<b>77,100,161</b>	<b>88,837,530</b>
<b>Non-current liabilities</b>		
At amortised cost	66,765,898	77,107,026
<b>Current liabilities</b>		
At amortised cost	10,334,263	11,730,504
<b>22. Long service award</b>		
Long service benefits are awarded in the form of a number of leave days once an employee has completed a certain number of years in service. The valuation was performed in line with GRAP 25 Employee benefits by ARCH Actuarial Consultants and Actuaries as at 30 June 2016. The Projected Unit Credit Method has been used to value the liabilities.		
<b>Changes in the present value of the long service liability is:</b>		
Opening balance	15,665,416	16,746,000
Current service cost	1,837,316	1,645,000
Interest cost	1,229,559	1,358,000
Benefits vested	(1,170,704)	(1,816,000)
Actuarial gain/(loss)	127,946	(2,267,584)
	<b>17,689,533</b>	<b>15,665,416</b>
Current liability	1,830,099	1,170,704
Non-current liability	15,859,434	14,494,712
	<b>17,689,533</b>	<b>15,665,416</b>

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>22. Long service award (continued)</b>		
Defined benefit obligation	17,689,533	15,665,416
	16,746,000	13,740,077
<b>Assumptions used at the reporting date:</b>		
Discount rates used	8.60 %	8.15 %
Normal salary increase rate	7.25 %	7.00 %
Net discount rate	1.26 %	0.93 %
<b>23. Employee benefit obligations</b>		
<b>Defined benefit plan</b>		
<b>Post retirement medical aid plan</b>		
<p>The municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.</p> <p>The municipality has agreed to subsidise the medical aid contributions of retired members. All existing continuation members (pensioners) and their dependants will continue to receive either a 60% or 70% subsidy depending on when they retired. This subsidy is subject to the maximum amount of R3 871 (per month per member) for the period from 1 July 2016 to 30 June 2017.</p> <p>The Projected Unit Credit Method has been used to value the liabilities.</p> <p>An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality by ARCH Actuarial Consultants and Actuaries.</p>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(83,610,781)	(73,395,987)
Non-current liabilities	(81,109,921)	(70,954,719)
Current liabilities	(2,500,860)	(2,441,268)
	<b>(83,610,781)</b>	<b>(73,395,987)</b>
<b>Changes in the present value of the employee benefit obligation are as follows:</b>		
Opening balance	73,395,987	70,425,000
Benefits paid	(2,441,268)	(6,209,013)
Net expense recognised in the statement of financial performance	12,656,061	9,180,000
	<b>83,610,780</b>	<b>73,395,987</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	3,890,847	5,379,000
Interest cost	6,504,570	6,513,000
Actuarial (gains) losses	2,260,644	(2,712,000)
	<b>12,656,061</b>	<b>9,180,000</b>

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 23. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.36 %	9.01 %
Consumer inflation	6.91 %	7.16 %
Medical cost trend rates	8.41 %	8.11 %
Net effective discount rate	0.88 %	0.83 %
Average retirement age	63	63

#### Other assumptions

Valuation results are sensitive to changes in the underlying assumptions. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Healthcare inflation - effect on the aggregate of the service cost and interest cost	10,832,800	9,769,700
Healthcare inflation - effect on defined benefit obligation	87,076,000	7,867,000
Discount rate - effect on the aggregate of the service cost and interest cost	9,468,000	11,537,200
Discount rate - effect on defined benefit obligation	72,391,000	97,727,000

Amounts for the current and previous four years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Post-retirement medical aid benefit	(83,610,780)	(73,395,987)	(70,425,000)	(69,623,708)	(74,925,000)

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits. During the year the contributions expensed for the year amounted to R42 147 770 (2015: R38 434 141).

### 24. Financial instruments disclosure

#### Categories of financial instruments

##### 2016

#### Financial assets

	At amortised cost	Total
Cash and cash equivalents	80,463,242	80,463,242
Other receivables from exchange transactions	25,604,902	25,604,902
Other receivables from non-exchange transactions	11,125,056	11,125,056
Consumer receivables	73,504,781	73,504,781
	<b>190,697,981</b>	<b>190,697,981</b>

#### Financial liabilities

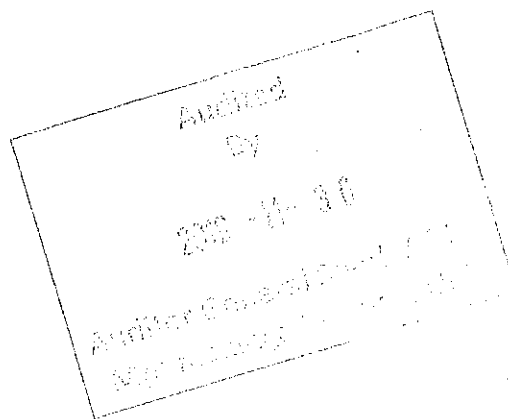
	At amortised cost	Total
Consumer deposits	81,886,507	81,886,507

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>Financial instruments disclosure (continued)</b>		
Finance lease obligation	106,805	106,805
Long service award	17,689,533	17,689,533
Payables from exchange transactions	158,825,855	158,825,855
Payables from non-exchange transactions	6,796,510	6,796,510
	<b>265,305,210</b>	<b>265,305,210</b>



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>Financial instruments disclosure (continued)</b>		
<b>2015</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Cash and cash equivalents	98,935,106	98,935,106
Other receivables from exchange transactions	12,331,837	12,331,837
Other receivables from non-exchange transactions	16,936,529	16,936,529
Consumer receivables	60,533,071	60,533,071
	<b>188,736,543</b>	<b>188,736,543</b>
<b>Financial liabilities</b>		
	At amortised cost	Total
Consumer deposits	71,952,206	71,952,206
Finance lease obligation	285,999	285,999
Long service award	15,665,416	15,665,416
Payables from exchange transactions	185,059,301	185,059,301
Payables from non-exchange transactions	2,330,857	2,330,857
	<b>275,293,779</b>	<b>275,293,779</b>
<b>25. Service charges</b>		
Sale of electricity	501,660,536	454,787,549
Sale of water	79,250,475	68,371,603
Sewerage and sanitation charges	68,678,824	64,855,912
Refuse removal	79,161,256	69,414,577
	<b>728,751,091</b>	<b>657,429,641</b>
<b>26. Interest received - trading</b>		
Property rates	1,106,923	879,034
Services	1,237,855	963,906
Sundry receivables	515,262	268,202
	<b>2,860,040</b>	<b>2,111,142</b>
<b>27. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	10,100,644	9,782,536
Short term investments	29,669,689	14,521,964
	<b>39,770,333</b>	<b>24,304,500</b>

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R39 770 333 (2015: R24 304 500).

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>28. Other income</b>		
Administration fees	2,749,005	2,744,020
Building plan fees	1,356,762	1,581,428
Cemetery fees	450,567	412,494
Community service fees	697,426	720,456
Connection fees	5,361,912	6,576,173
Dumping site fees	1,361,033	1,076,621
ESKOM servitudes	1,275,365	2,348,715
Electricity	-	39,601
Entrance fees	452,838	428,154
Guarantee Keren Kula	-	1,153,797
Insurance claims	1,320,211	7,777,000
Internal fees	30,424	42,917
Main service contribution	7,641,251	4,471,597
Meter testing fees and calls	-	1,288
Option fee	273,171	258,324
Recovery of purification costs	360,589	586,324
Sale of erven	8,120,254	35,435,376
Sale of material and supplies	90,834	719,823
Skills development fund refund	828,579	393,300
Sundry income	818,771	960,540
Tender documents	404,784	-
Thuthuka business rescue	167,607	-
	<b>33,761,383</b>	<b>67,727,948</b>

## 29. Property rates

### Rates received

Commercial	123,796,592	113,491,583
Government	16,639,274	15,498,612
Privately owned towns	910,858	842,384
Residential	167,263,740	152,960,519
	<b>308,610,464</b>	<b>282,793,098</b>

### Valuations

Commercial	5,022,244,400	1,063,782,000
Government	1,065,023,000	4,935,677,000
Privately owned towns	68,884,000	64,475,000
Residential	9,050,100,400	8,817,047,700
	<b>15,206,251,800</b>	<b>14,880,981,700</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The new general valuation will be implemented on 01 July 2018.

A general rate of R0.011 (2015: R0.011) is applied to property valuations to determine assessment rates.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>30. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	119,935,000	103,556,000
Expanded public works programme	955,803	1,003,075
Finance management grant	1,524,739	1,600,000
Informal housing grant (RDP)	-	7,896,377
Municipal accreditation fund (MACEF)	252,634	-
Municipal infrastructure grant	1,777,490	1,858,931
Municipal systems improvement grant	940,000	88,534
	<b>125,385,666</b>	<b>116,002,917</b>
<b>Capital grants</b>		
Energy efficient demand site management grant	-	4,349,483
Expanded public works programme	599,006	504,735
Human settlement grant	987,039	-
Municipal demarcation transition grant	12,048,302	-
Municipal infrastructure grant	44,411,879	53,435,859
Municipal systems improvement grant	-	701,420
	<b>58,046,226</b>	<b>58,991,497</b>
	<b>183,431,892</b>	<b>174,994,414</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
All registered indigents receive a monthly subsidy of R 424 (2015: R 385), which is funded from the grant. The grant is unconditional.		
<b>Finance management grant (FMG)</b>		
Current-year receipts	1,600,000	1,600,000
Conditions met - transferred to revenue	(1,524,743)	(1,600,000)
Payable to National Treasury	(75,257)	-
	<b>-</b>	<b>-</b>
The purpose of this grant is to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003 and to fund the internship programme.		
<b>Municipal systems improvement grant (MSIG)</b>		
Current-year receipts	940,000	934,000
Conditions met - transferred to revenue	(940,000)	(789,954)
Re-paid to National Treasury	-	(144,046)
	<b>-</b>	<b>-</b>
The purpose of this grant is to build in-house capacity to perform their functions and stabilise institutional and governance systems.		
<b>Municipal infrastructure grant (MIG)</b>		
Balance unspent at beginning of year	-	2,049,300
Current-year receipts	48,094,000	52,283,000
Conditions met - transferred to revenue	(46,189,369)	(54,332,300)
Capitalised in previous year	(962,490)	-
Payable to National Treasury	(942,141)	-
	<b>-</b>	<b>-</b>

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 30. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 19).

The purpose of this grant is to construct basic municipal infrastructure to provide basic services for the benefit of poor households.

#### Integrated national electrification programme (INEP)

Current-year receipts	15,400,000	-
Conditions met - transferred to revenue	(12,048,302)	-
	<u>3,351,698</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 19).

This grant is used to address the electrification backlog of permanently occupied residential dwellings the conditions of the grant were met and no funds have been withheld.

#### Informal housing grant (RDP)

Balance unspent at beginning of year	1,993,207	1,933,474
Current-year receipts	-	7,956,109
Conditions met - transferred to revenue	-	(7,896,376)
	<u>1,993,207</u>	<u>1,993,207</u>

Conditions still to be met - remain liabilities (see note 19).

The purpose of this grant is to provide funding to build capacity to implement level 2 housing accreditation.

#### Expanded public works programme (EPWP)

Current-year receipts	1,583,000	1,705,000
Conditions met - transferred to revenue	(1,554,809)	(1,507,809)
Payable to National Treasury	(28,191)	(197,191)
	<u>-</u>	<u>-</u>

The purpose of this grant is to effect a special performance-based incentive provided to provinces and municipalities that contribute to the employment creation efforts of the expanded public works program through the employment of previously unemployed people.

#### Human settlement grant

Current-year receipts	5,235,000	-
Conditions met - transferred to revenue	(987,039)	-
	<u>4,247,961</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 16).

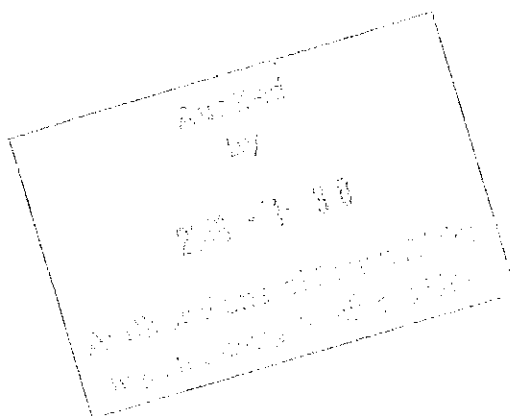
The grant is used to assist the municipality with the installation of a water network in Doornkop.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>31. Public contributions and donations</b>		
Developer donations	798,000	34,198,705
Glencore mine	-	20,326,761
Government donations	21,200,000	17,453
Nkangala district municipality	38,975,026	-
	<b>60,973,026</b>	<b>54,542,919</b>
<b>Major classes</b>		
Community assets - crafter stalls	1,272,292	-
Infrastructure - electricity	-	17,871,429
Infrastructure - roads	5,662,977	14,706,910
Infrastructure - sanitation	-	12,487,170
Infrastructure - water	25,972,510	8,194,567
Other assets	-	17,453
Other land	16,498,000	1,265,390
Specialised vehicles - fire	6,067,247	-
Transfer stations	5,500,000	-
	<b>60,973,026</b>	<b>54,542,919</b>



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>32. Employee related costs</b>		
Cellphone allowances	601,119	526,214
Group insurance	1,149,852	1,127,481
Housing benefits and allowances	4,406,922	1,646,687
Medical aid - company contributions	18,472,658	16,490,645
Overtime payments	58,615,753	56,311,581
Pension fund contributions	42,147,770	38,434,142
Salaries	233,707,212	212,230,523
Unemployment insurance fund contribution	2,134,027	2,041,043
Workmen's compensation	2,069,830	2,039,112
	<b>363,305,143</b>	<b>330,847,428</b>

### Municipal Manager: WD Fouche

Annual remuneration	-	1,283,305
Cellphone allowance	-	20,769
Contributions to UIF, medical and pension funds	-	68,883
Performance bonus	-	411,583
Travel allowance	-	119,249
Other	-	(4,780)
	<b>-</b>	<b>1,899,009</b>

Appointed from 06 April 2010 until 31 January 2015.

### Municipal Manager: SM Mnguni (acting)

Annual remuneration	986,954	986,496
Cellphone allowance	24,916	22,601
Contributions to UIF, medical and pension funds	25,189	25,189
Performance bonus	253,453	-
Travel allowance	168,859	194,705
Other	4,294	4,751
	<b>1,463,665</b>	<b>1,233,742</b>

Appointed 01 March 2014 until 28 February 2018 (acting as municipal manager from 1 February 2015).

### Executive Director Finance Services: E Wassermann

Annual remuneration	964,135	905,866
Cellphone allowance	24,910	23,280
Contributions to UIF, medical and pension funds	69,810	64,229
Performance bonus	455,299	99,243
Travel allowance	110,169	122,184
Other	4,731	4,900
	<b>1,629,054</b>	<b>1,219,702</b>

Appointed from 01 March 2012 until 28 February 2017.

### Executive Manager Corporate Services: T Mekuto

Annual remuneration	-	178,640
Cellphone allowance	-	5,820
Contributions to UIF, medical and pension funds	-	31,287
Performance bonus	-	439,266
Travel allowance	-	30,000
Other	-	1,198
	<b>-</b>	<b>686,211</b>

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>32. Employee related costs (continued)</b>		
Employment started 03 February 2011 until 30 September 2014.		
<b>Executive Manager Community Services: MC Hlatshwayo</b>		
Annual remuneration	994,948	932,667
Cellphone allowance	24,916	20,544
Contributions to UIF, medical and pension funds	27,302	25,516
Performance bonus	168,484	-
Travel allowance	120,278	124,556
Other	4,647	4,812
	<b>1,340,575</b>	<b>1,108,095</b>

Appointed from 01 March 2013 until 28 February 2018.

### Executive Manager Infrastructure Services: NB Thobela

Annual remuneration	453,496	789,299
Cellphone allowance	10,991	20,594
Contributions to UIF, medical and pension funds	12,368	21,600
Performance bonus	85,705	-
Travel allowance	107,626	227,346
Other	44	81
	<b>670,230</b>	<b>1,058,920</b>

Employment started 01 July 2014 until 31 December 2015.

The remuneration of staff is within the upper limits of the SALGA Bargaining Council's determinations.

### 33. Remuneration of councillors

Councillor whip	614,764	583,990
Councillors	13,320,612	12,414,027
Executive mayor	811,529	770,497
Mayoral committee members	3,688,584	3,503,941
Speaker	654,115	621,290
	<b>19,089,604</b>	<b>17,893,745</b>

#### Councillors remuneration is made up of the following:

Councillors remuneration	12,131,687	11,393,184
Cell phone and other allowances	1,415,488	1,392,722
Medical aid contributions	509,703	447,623
Pension contributions	683,820	650,998
Travel allowance	4,348,905	4,009,218
	<b>19,089,603</b>	<b>17,893,745</b>

#### In-kind benefits

The executive mayor, chief whip, speaker and mayoral committee members are full-time. Each is provided with an office and secretarial support at the cost of the council. The executive mayor has use of a council owned vehicle and driver for official duties. The executive mayor has a personal assistant to assist him in his duties.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

					2016 R	2015 R
<b>33. Remuneration of councillors (continued)</b>						
<b>2016</b>	<b>Annual remuneration</b>	<b>Travel allowance</b>	<b>Pension contributions</b>	<b>Medical aid contributions</b>	<b>Cellphone and other allowances</b>	<b>Total</b>
Executive mayor MAS Masina	449,726	196,765	63,738	76,832	24,468	811,529
Speaker RM Xaba	387,143	157,412	55,819	29,273	24,468	654,115
Chief whip BP Ndala	365,044	147,574	52,700	24,977	24,468	614,763
	<b>1,201,913</b>	<b>501,751</b>	<b>172,257</b>	<b>131,082</b>	<b>73,404</b>	<b>2,080,407</b>
<b>Mayoral committee</b>	<b>Annual remuneration</b>	<b>Travel allowance</b>	<b>Pension contributions</b>	<b>Medical aid contributions</b>	<b>Cellphone and other allowances</b>	<b>Total</b>
Cllr NJ Mahlangu	357,583	147,574	51,384	33,755	24,468	614,764
Cllr EF Mathebula	386,275	147,574	56,447	-	24,468	614,764
Cllr DJ Motsepe	422,368	147,574	-	20,354	24,468	614,764
Cllr SD Nkadineng	419,285	147,574	-	23,437	24,468	614,764
Cllr EP Nkosi	353,528	147,574	50,668	38,526	24,468	614,764
Cllr H Pilodia	361,869	147,574	52,140	28,713	24,468	614,764
	<b>2,300,908</b>	<b>885,444</b>	<b>210,639</b>	<b>144,785</b>	<b>146,808</b>	<b>3,688,584</b>
<b>Part time councillors</b>	<b>Annual remuneration</b>	<b>Travel allowance</b>	<b>Pension contributions</b>	<b>Medical aid contributions</b>	<b>Cellphone and other allowances</b>	<b>Total</b>
Cllr E Du Toit	155,241	59,309	22,686	-	24,468	261,704
Cllr J Dyason	177,927	59,309	-	-	24,468	261,704
Cllr AS Grobler	155,241	59,309	22,686	-	24,468	261,704
Cllr EA Jele	177,927	59,309	-	-	24,468	261,704
Cllr DS Khanyile	170,041	56,086	-	-	23,138	249,265
Cllr TR Langeveld	177,927	59,309	-	-	24,468	261,704
Cllr DM Longman	187,812	49,424	-	-	24,468	261,704
Cllr TB Mahlangu	177,927	59,309	-	-	24,468	261,704
Cllr LJ Manzini	155,241	59,309	22,686	-	24,468	261,704
Cllr PJ Masilela	177,927	59,309	-	-	24,468	261,704
Cllr M Mathibela	190,520	63,528	-	-	26,313	280,361
Cllr J Matshiane	177,927	59,309	-	-	24,468	261,704
Cllr M Mbatiwe	160,326	59,309	-	17,601	24,468	261,704
Cllr LE Mkhuma	177,927	59,309	-	-	24,468	261,704
Cllr NJ Mlambo	177,927	59,309	-	-	24,468	261,704

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

					2016 R	2015 R
<b>33. Remuneration of councillors (continued)</b>						
Cllr MR	127,291	59,309	17,753	32,882	24,468	261,703
Mnguni						
Cllr SM	155,241	59,309	22,686	-	24,468	261,704
Mnguni						
Cllr P	167,038	59,309	-	10,889	24,468	261,704
Mobango						
Cllr SM	177,927	59,309	-	-	24,468	261,704
Mogola						
Cllr BH	142,305	54,367	20,795	-	22,429	239,896
Mokoena						
Cllr KN	133,648	59,309	18,875	25,404	24,468	261,704
Monareng						
Cllr TN	177,927	59,309	-	-	24,468	261,704
Morufane						
Cllr GZ	132,771	44,257	-	-	18,258	195,286
Msimango						
Cllr ZD	177,927	59,309	-	-	24,468	261,704
Mtshweni						
Cllr TG	27,976	9,325	-	-	4,078	41,379
Ndlangamandl						
a						
Cllr HF	155,241	59,309	22,686	-	24,468	261,704
Niemann						
Cllr ME	177,927	59,309	-	-	24,468	261,704
Nyambi						
Cllr JP	155,241	59,309	22,686	-	24,468	261,704
Pretorius						
Cllr GHE	177,927	59,309	-	-	24,468	261,704
Romijn						
Cllr SJ Roos	177,927	59,309	-	-	24,468	261,704
Cllr MJ	177,927	59,309	-	-	24,468	261,704
Sekgwele						
Cllr PM	139,231	59,309	-	38,696	24,468	261,704
Shongwe						
Cllr P Sithole	177,927	59,309	-	-	24,468	261,704
Cllr DJ	177,927	59,309	-	-	24,468	261,704
Skhosana						
Cllr BC	177,927	59,309	-	-	24,468	261,704
Skosana						
Cllr J Skosana	177,927	59,309	-	-	24,468	261,704
Cllr A Struwig	177,927	59,309	-	-	24,468	261,704
Cllr PP Tau	237,236	-	-	-	24,468	261,704
Cllr KPJ Uys	155,241	59,309	22,686	-	24,468	261,704
Cllr TN Van Zyl	177,927	59,309	-	-	24,468	261,704
Cllr S Wait	177,927	59,309	-	-	24,468	261,704
Cllr SS Zitha	177,927	59,309	-	-	24,468	261,704
	<b>6,995,203</b>	<b>2,352,802</b>	<b>216,225</b>	<b>125,472</b>	<b>999,532</b>	<b>10,689,234</b>
<b>Chairpersons</b>	<b>Annual remuneration</b>	<b>Travel allowance</b>	<b>Pension contributions</b>	<b>Medical aid contributions</b>	<b>Cellphone and other allowances</b>	<b>Total</b>
Cllr PM	199,227	76,113	29,113	-	24,468	328,921
Hadebe						
Cllr SA	228,341	76,113	-	-	24,468	328,922
Lukhele						
Cllr O Malinga	228,341	76,113	-	-	24,468	328,922
Cllr MTE	199,227	76,113	29,113	-	24,468	328,921
Mnguni						
Cllr MS	204,903	76,113	-	23,437	24,468	328,921
Motebu						

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

					2016 R	2015 R
<b>33. Remuneration of councillors (continued)</b>						
Cllr MJ Selala	197,628	76,113	-	30,713	24,468	328,922
Cllr MT Selala	191,728	76,113	-	36,612	24,468	328,921
Cllr PI Thwala	184,266	76,113	26,474	17,601	24,468	328,922
	<u>1,633,661</u>	<u>608,904</u>	<u>84,700</u>	<u>108,363</u>	<u>195,744</u>	<u>2,631,372</u>

### 34. Depreciation and amortisation

Property, plant and equipment	145,561,195	147,996,673
Intangible assets	610,908	1,058,864
	<u>146,172,103</u>	<u>149,055,537</u>

### 35. Impairment of assets

#### Impairments

Property, plant and equipment	12,978,003	5,224,731
During the year assets which were lost or replaced and no longer in use were impaired. These assets remaining service potential to the municipality is R0 as the assets do not exist anymore.		

### 36. Finance costs

Annuity loans	8,372,957	9,682,646
Finance leases	18,140	36,170
	<u>8,391,097</u>	<u>9,718,816</u>

Total interest expenses are calculated using the effective interest rate on borrowings. The interest rate vary between 9% and 13% (2015: 9% to 13%).

### 37. Debt impairment

Contributions to allowance for impairment	8,293,281	2,060,164
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### 38. Bulk purchases

Electricity	366,708,718	315,281,581
Water	12,909,378	11,580,356
	<u>379,618,096</u>	<u>326,861,937</u>

Distribution losses incurred on water and electricity:

<b>2016</b>		% loss
Electricity		8.59 %
Water		28.79 %
<b>2015</b>		% loss
Electricity		8.45 %
Water		29.50 %

Audited  
By  
2016-11-30  
Auditor General of South Africa  
Nkomo & Co (Pty) Ltd



## Annual Financial Statements for the year ended June 30, 2016

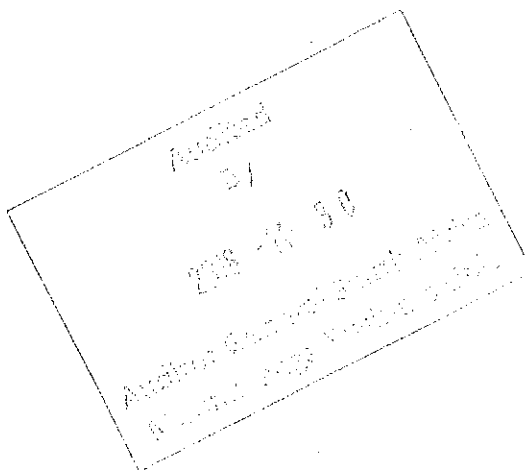
	2016 R	2015 R
<b>39. Contracted services</b>		
Commission fees	8,950,751	6,603,762
Garden waste removal services	8,396,334	6,929,367
Other contractors	10,689,808	11,426,101
Security services	10,549,898	9,498,806
	<b>38,586,791</b>	<b>34,458,036</b>
<b>40. Grants and subsidies paid</b>		
Business linkage centre	300,000	280,000
Forever resorts marathon	30,000	30,000
Free basic services	66,102,822	59,334,388
Property rates rebates	3,773,487	3,092,009
Rotary, schools and other	253,000	225,000
Society for the prevention of cruelty to animals (SPCA)	650,000	550,000
Tourism information centre	330,000	280,000
	<b>71,439,309</b>	<b>63,791,397</b>
<b>41. General expenses</b>		
Advertising and publicity	5,056,210	5,042,326
Auditors remuneration	4,111,626	3,814,494
Bank charges	2,345,488	2,356,494
Consulting fees	7,452,457	9,152,420
Corporate expenditure	8,630,498	9,825,451
Deed search	175,512	181,197
EPWP programmes	955,803	1,001,312
Engineering studies	-	2,193,489
Entertainment	2,897,605	2,865,787
Eskom connection fees	89,358	-
Fuel and oil	12,402,795	14,494,621
Hire of equipment	2,315,454	2,073,960
Insurance	5,873,091	5,985,686
Inventory expensed	3,014,746	67,550,121
Legal fees	3,435,152	2,540,073
Licensing fees	5,431,599	3,865,255
Loss of inventory	137,725	148,992
Magazines, books and periodicals	193,999	212,455
Materials and supplies	8,937,321	8,757,890
Medical expenses	311,999	351,220
Occupational health and safety	304,633	279,591
Postage and courier	2,308,884	1,933,304
Printing and stationery	3,860,153	3,291,968
Rental plants (nursery)	-	266,416
Skills development levies	3,311,049	3,081,547
Staff development cost	3,631,174	3,352,854
Staff welfare	522,281	777,121
Subscriptions and membership fees	4,201,373	3,598,151
Telephone and connectivity	4,449,754	4,627,891
Travel and accommodation	13,626,642	14,015,291
Uniforms	2,768,705	2,867,641
Virtual storage	355,388	-
Ward committee expenses	3,709,418	3,656,711
Write down of inventory to net realisable value	5,538,524	15,335,501
	<b>122,356,416</b>	<b>199,497,251</b>

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>42. Auditors' remuneration</b>		
Fees	4,111,626	3,814,494
<b>43. Cash generated from operations</b>		
Surplus	160,565,995	106,345,121
<b>Adjustments for:</b>		
Depreciation and amortisation	146,172,103	149,055,537
Loss on sale of assets and liabilities	(289,806)	(244,375)
Public donations	(60,973,026)	(54,542,919)
Provision - long service award	2,024,117	(1,080,584)
Impairment	12,978,003	5,224,731
Debt impairment	8,293,281	2,060,164
Movements in operating lease assets and accruals	28,757	1,020,422
Movement in operating lease asset	10,214,794	2,970,987
Provision	2,793,027	4,568,494
<b>Changes in working capital:</b>		
Inventories	(9,536,374)	(2,627,001)
Other receivables from exchange transactions	(12,569,501)	1,911,970
Consumer receivables	(16,814,072)	(11,772,416)
Receivables from non-exchange transactions	656,990	(8,688,607)
Payables from exchange transactions	(26,234,941)	32,576,505
VAT	25,222,829	(3,376,571)
Taxes and transfers payable (non exchange)	4,465,653	(576,146)
Unspent conditional grants and receipts	3,351,698	(6,630,882)
Consumer deposits	9,934,301	7,022,084
	<b>260,283,828</b>	<b>223,216,514</b>



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>44. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Community assets	318,970	4,371,976
• Infrastructure	29,117,905	21,879,193
• Other assets	1,294,086	4,371,396
• Specialised vehicles	6,167,841	-
	<b>36,898,802</b>	<b>30,622,565</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Community assets	369,000	140,000
• Infrastructure	14,829,982	1,873,293
• Land and buildings	1,157,985	4,000,000
• Other assets	2,312,101	344,452
• Specialised vehicles	1,808,515	740,000
	<b>20,477,583</b>	<b>7,097,745</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	36,898,802	30,622,565
Not yet contracted for and authorised by accounting officer	20,477,583	7,097,745
	<b>57,376,385</b>	<b>37,720,310</b>
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	57,376,385	37,720,310
<b>This expenditure will be financed from:</b>		
Capital replacement reserve	15,241,174	8,421,156
External loans	34,513,483	29,299,154
Government grants	7,621,728	-
	<b>57,376,385</b>	<b>37,720,310</b>

Audited  
 By  
 2016-11-30  
 ANTHONY CHABANE  
 Member of the Council

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>45. Contingencies</b>		
1. MM Selela on behalf of Phillip Selela - claim in the amount of R175 000 for damages against the municipality for the injury to his child as a result of loose paving.		
2. TAC Wesson - claim in the amount of R100 000 for unlawful arrest in a traffic related incident.		
3. ABSA Technology Finance Solution (Pty) Ltd - claim in the amount of R22 000 as the sum owing at the date of termination of the master rental agreement.		
4. Steven Mahlangu - claim in the amount of R100 000 for the unlawful arrest in a traffic related incident. Matter referred to council's insurance.		
5. HE Scheepers – claim in the amount of R300 000 for unlawful arrest in a traffic related incident. Mr Scheepers' attorney is awaiting outcome of criminal appeal before deciding whether to pursue with the civil claim against the municipality or not. Matter referred to council's insurance.		
6. JB Mahlangu - claim in the amount of R50 000 wherein the fire department vehicle negligently collided with a minibus taxi. Matter referred to council's insurance.		
7. F de Beer – claim in the amount of R13 690 instituted against the municipality for damage caused by a pothole to a motor vehicle on corner Cowen Ntuli and Walter Sisulu Street. Matter referred to council's insurance.		
8. Lucro Investments Pty) Ltd - claim in the amount of approximately R500 000 for an apeal hearing against the municipality decision not to approve the rezoning application. Mpumalanga Township Board made a recommendation to uphold the appeal and to grant a high court cost order against the municipality. Should the MEC for Mpumalanga Provincial Government Department of Agriculture and Land Adiministration agree with the recomendation the cost will be payable.		
9. South African Local Authority Pension Fund - claim in the amount of R76 268 being the amount paid to the beneficiary by the fund as a result of the failure by the municipality to timeously submit the claim forms. The matter is defended by council's attorneys.		
10. S van Zyl - claim in the amount of R200 000 for unlawful arrest in a traffic related incident. Matter is referred to council's insurance.		
11. PW Botha and others - claim in the amount of R352 500 for unlawful arrest in a traffic related incident. Matter referred to council's insurance.		
12. S van Vreden – claim in the amount of R1 343 102 for damages, pain and suffering and loss of income due to alleged negligence by the municipality.		
13. Triple E Training Holdings (Pty) Ltd - claim in the amount of R12 938 for damages for services rendered (adult base education and training). The matter is defended by council attorneys.		
14. S Moroamoche – claim in the amount of R72 700 against the municipality for damage to a vehicle in an accident. Matter is defended by council's attorneys		
15. MB Lehwelene - claim in the amount of R50 000 for damages after the claimant was dismissed at a disciplinary hearing during August 2006. Matter is defended by council attorneys.		
16. C van Rensburg - claim in the amount of R100 000 for damages after a wheel dislodged from a vehicle which was driven by a council employee on 15 May 2008. Matter is referred to council's insuranceAdditional tex		
17. Zurich Insurance Company on behalf of AN Strydom - claim in the amount of R76 867 against the municipality for damage to a vehicle in an accident. Matter is defended by council's insurers.		
18. B Chego - claim in the amount of R100 000 against the municipality for damage to a vehicle in an accident. Matter is defended by council's insurers.		
19. CJ du Bruyn on behalf of V du Bruyn (minor) - claim in the amount of R250 273 against the municipality for negligence. Matter defended by council's insurers.		

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>45. Contingencies (continued)</b>		
20. PB Siziba on behalf of PM Siziba (minor) - claim in the amount of R505 000 against the municipality for negligence. Matter is defended by council's insurers.		
21. AF Talane - claim in the amount of R50 000 against the municipality for unlawful arrest. Matter is defended by council's insurers.		
22. EB Mahlangu - claim in the amount of R50 000 against the municipality for unlawful arrest. Matter is defended by council's insurers.		
23. MP Kunneke - claim in the amount of R1 000 000 against the municipality for negligence. Matter is defended by council's insurers.		
24. Prestige Events - claim in the amount of R682 438 against the municipality for damages arising from the breach of contract. Matter defended by council attorneys.		
25. D Coetzee - claim in the amount of R250 000 against the municipality for unlawful arrest. Letter of demand referred to council's insurance.		
26. JNH Grobler - claim in the amount of R430,518 against the municipality for unlawful arrest and damage to vehicle. Matter referred to council's insurers.		
27. JM Ravele - claim in the amount of R89 508 against the municipality for negligence of failure to exercise due care towards the plaintiff. Matter referred to council's insurers.		
28. NL Mogashoa - claim in the amount of R14 285 against the municipality for damage to vehicle as a result of collision with municipal vehicle. Matter referred to council's insurers.		
29. E Booysen - claim in the amount of R1 000 000 against the municipality for negligence due to failure to put up a cul-de-sac sign.		
30. Nashua Mobile - claim in the amount of R132 481 for non-payment of invoice due to dispute on possible fraud. Matter is referred to council's attorneys.		
31. Federale Stene - claim in the amount of R5 691 064 against the municipality for failure to rehabilitate the landfill site. Matter is defended by council's attorneys.		
32. GM van Vuuren - claim in the amount of R2 150 for damages to motorcycle caused by broken glass left on the street. Matter referred to council's insurer.		
33. Ms N Nkosi - claim in the amount of R73 750 for damages to property caused by a burst water pipe. Matter referred to council's insurer.		
34. Mr R Sindane - claim in the amount of R20 000 for damages to property caused by a burst water pipe. Matter referred to council's insurer.		
35. Ms M Hlatshwayo - claim in the amount of R20 000 for damages to property caused by a burst water pipe. Matter referred to council's insurer.		
36. Ms DS Mphahlele - claim for damages to property caused by storm water. Matter referred to council's insurance. The amount is yet to be determined.		
37. Mrs EQ Mohoto - claim in the amount of R6 000 against the municipality for injuries sustained after the third party fell in a hole while walking on a sidewalk. Matter is referred to council's insurance.		
38. Mr RL Modishane - claim in the amount of R6 005 against the municipality for damages to electronic equipment caused by a power surge. Matter is referred to council's insurance.		
39. Mr P Phetla - claim in the amount of R16 864 against the municipality for damages to the third party's vehicle after colliding with a vehicle belonging to the municipality. Matter is referred to council's insurance.		

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>45. Contingencies (continued)</b>		
40. Mr KM Skosana – claim in the amount of R200 000 against the municipality for being assaulted by the municipality's traffic officers. Matter is referred to council's insurance.		
41. Telkom – claim in the amount of R30 050 against the municipality for damages caused to 12 fibre optic cables near Hendrina power station. Matter referred to council's insurance.		
42. Mr M Mathunyane – claim in the amount of R19 904 against the municipality for damages caused to his vehicle after colliding with a vehicle belonging to the municipality. Matter referred to council's insurance.		
43. Mr MJ Letsoalo – claim in the amount of R50 822 against the municipality for damages to property caused by a burst water pipe. Matter referred to council's insurance.		
44. Mr FJ Venter – claim in the amount of R20 006 against the municipality for damages to his vehicle after colliding with a vehicle belonging to the municipality. Matter is referred to council's insurance.		
45. PW Saayman – claim in the amount of R5 023 against the municipality for the loss of a JoJo tank after it got burnt in a veldfire started by the municipality's fire fighters. Matter is referred to council's insurance.		
46. Telkom SA SOC Ltd – claim in the amount of R21 532 against the municipality for damages caused to a Telkom manhole. Matter is referred to council's insurance.		
47. NS Archer – claim in the amount of R2 148 against the municipality for food that got spoiled as a result of a 2 day long power outage. Matter is referred to council's insurance.		
48. FK Mahlangu – claim in the amount of R4 104 against the municipality for injuries sustained and loss of his phone after falling into a hole on the sidewalk at Mankge Street. Matter is referred to council's insurance.		
49. A Ntamele – claim in the amount of R400 000 against the municipality for being shot by a traffic officer for no reason. Matter referred to council's insurance.		
50. AP Samasuwo – claim in the amount of R400 000 against the municipality for being shot by a traffic officer for no reason. Matter referred to council's insurance.		
51. DJ Swanepoel and Associates (on behalf of Du Plessis) HBN 893 MP – claim in the amount of R14 229 against the municipality for damages caused to the third party vehicle after colliding with a vehicle belonging to the municipality. Matter referred to council's insurance.		
52. BM Sithole – claim in the amount of R24 267 against the municipality for damages to vehicle after colliding with a municipal vehicle. Matter referred to council's insurance.		
53. TJ van Dyk – claim in the amount of R70 000 for unlawful arrest. Matter referred to council's insurance.		
54. MP Naidoo – claim in the amount of R9 785 for damages to vehicle caused by pothole. Matter is referred to council's insurance.		
55. EJ Joubert – claim in the amount of R780 098 for damages to third party vehicle caused by a pothole. Matter referred to council's insurance.		
56. MG de Koker – claim in the amount of R16 500 for injury as a result of falling into a manhole. Matter referred to council's insurance.		
57. MP Mahlangu – claim against the municipality for emotional shock caused from the wrongful arrest and assault of his father. The amount is yet to be determined. Matter referred to council's insurance.		
58. KJ Mahlangu – claim against the municipality for unlawful arrest, assault, detention and prosecution. Amount is yet to be determined. Matter referred to council's insurance.		
59. Alveston Manor guesthouse – claim in the amount of R4 592 against the municipality in respect of accommodation provided. Matter referred to council's insurance.		

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>45. Contingencies (continued)</b>		
60. L. Naidoo – claim in the amount of R4 563 against the municipality for damages caused to third party's vehicle by a speed hump. Matter is referred to council's insurance.		
61. MX Masango – claim against the municipality for injuries sustained from playground equipment. Amount is yet to be determined. Matter referred to council's insurance.		
62. S Mokwana – claim in the amount of R100 000 against the municipality for wrongful arrest and assault of a third party. Matter referred to council's insurance.		
63. MP Mahlangu – claim against the municipality for misallocation of land. Amount is yet to be determined. Matter referred to council's insurance.		
64. Dark Fibre Africa – claim in the amount of R63 506 against the municipality for damages caused to a fibre optic cable and its infrastructure.		
65. MM Eysell – claim against the municipality for damages caused to property as a result of the blasting activity at Shanduka Graspan Colliery. Amount is yet to be determined. Matter referred to council's insurance.		
66. Mr CH van Dyk – claim in the amount of R73 376 against the municipality for damages caused to his vehicle after colliding with a vehicle belonging to the municipality. Matter referred to council's insurance.		
67. Mrs L Mahlangu – claim against the municipality for damages to her vehicle after colliding with a pothole. Amount is yet to be determined. Matter referred to council's insurance.		
68. Mr T Ngwenya – claim in the amount of R65 001 against the municipality for damage to property caused by a water pipe that burst. Matter referred to council's insurance.		
69. Elusindisweni Primary School – claim against the municipality for damage to property caused by the municipality's vehicle that drove through it. Amount is yet to be determined. Matter referred to council's insurance.		
70. Mrs Blignaut – claim in the amount of R14 931 against the municipality for damages caused to third party vehicle after colliding with a pothole. Matter is referred to council's insurance.		
71. Mr R Ramothibe – claim against the municipality for damages caused to property by a water pipe that burst. Amount is yet to be determined. Matter referred to council's insurance.		
72. Mrs S Mzotho – claim against the municipality for damage to electronic appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
73. M Maela – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
74. L Mosiane – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
75. M Sekhuto – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
76. Masilela and Mdluli – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined.		
77. TM Mpila – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
78. Mrs BK Mabuza – claim in the amount of R9 400 against the municipality for damage to property caused by a water pipe that burst. Matter referred to council's insurance.		
79. Telkom Soc Ltd – claim in the amount of R7 591 against the municipality for damage caused to fibre optic cables. Matter referred to council's insurance.		

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>45. Contingencies (continued)</b>		
80. Mr A Mathebula – claim against the municipality in the amount of R800 000 against the municipality for being assaulted by traffic officers. Matters referred to council's insurance.		
81. Mr J Coetzee – claim against the municipality in the amount of R6 215 against the municipality for damages caused to third party vehicle by council officials cutting grass. Matter referred to council's insurance.		
82. Camm Trans – claim against the municipality for loss of income. Amount is yet to be determined. Matter referred to council's insurance.		
83. S Sibanyoni – claim against the municipality for damage to property caused by a water pipe that burst. Amount is yet to be determined. Matter referred to council's insurance.		
84. Ekwazini Secondary School – claim against the municipality for damage to property caused by municipal employees. Amount is yet to be determined. Matter referred to council's insurance.		
85. Mr P Maseko – claim in the amount of R1 000 for food that got spoilt as a result of a power outage. Matter referred to council's insurance.		
86. Mr D Khumalo – claim in the amount of R13 493 against the municipality for damages caused to third party vehicle after colliding with a pothole. Matter referred to council's insurance.		
87. Mrs S Stonga – claim in the amount of R19 724 against the municipality for damages to her wall after a municipal truck drove into it.		
88. Mrs B Nkwana – claim against the municipality for injuries suffered after the third party fell on a sidewalk. Amount is yet to be determined. Matter referred to council's insurance.		
89. Mrs L Skosana – claim against the municipality for damages caused to third party vehicle after colliding with pothole. Amount is yet to be determined. Matter referred to council's insurance.		
90. Mrs BS McPherson – claim against the municipality for damage caused to electrical appliances by a power outage. Amount is yet to be determined. Matter referred to council's insurance.		
91. Mrs SL Maseko – claim against the municipality for damage to property caused by a water pipe that burst. Amount is yet to be determined. Matter referred to council's insurance.		
92. AC Raynard – claim in the amount of R4 788 against the municipality for clearing a manhole that was blocked. Matter referred to council's insurance.		
93. Telkom SA Soc Ltd – claim against the municipality for damage caused to underground cables. Amount is yet to be determined. Matter referred to council's insurance.		
94. Midhend Investment CC – claim in the amount of R15 000 against the municipality for demolition of the third party's structure. Matter referred to council's insurance.		
95. KJ Thubane – claim in the amount of R3 343 against the municipality for damages to vehicle after colliding with a rock on the road. Matter referred to council's insurance.		
96. Ned Consortium – claim in the amount of R154 389 against the municipality for the illegal termination of a contract. Matter referred to council's insurance.		
97. NC (Pty) Ltd – claim in the amount of R6 326 against the municipality for missing stock.		
98. Mrs E Moagi – claim in the amount of R18 169 against the municipality for demolition of third party structure.		
99. Mr and Mrs Vilane – claim in the amount of R81 754 against the municipality for damages of property caused by a water pipe that burst.		
100. Mr and Mrs Letsoalo – claim in the amount of R102 254 against the municipality for damage to property caused by a water pipe that burst. Matter referred to council's insurance.		



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 45. Contingencies (continued)

101. SJ Mollentze – claim in the amount of R510 000 against the municipality for injuries sustained after a tree stump fell on her. Matter referred to council's insurance.

102. NS Mahlangu - claim in the amount of R46 500 against the municipality for damage to property caused by a water pipe that burst. Matter referred to council's insurance.

103. ZL Maseko – claim against the municipality for damage to property caused by an electrical pole that fell on her house. Amount is yet to be determined. Matter referred to council's insurance.

104. K Mabhoko – claim in the amount of R200 000 against the municipality for assault by traffic officers. Matter referred to council's insurance.

105. C Thela – claim against the municipality for damage to vehicle caused by a pothole. Amount is yet to be determined. Matter referred to council's insurance.

### 46. Related parties

Relationships  
Accounting officer  
Councillors  
Key management

Refer to accounting officer's report  
Refer to note 33  
Refer to note 32

### 47. Prior period errors

The prior year has been amended to account for prior period errors.

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

Statement of financial performance	Balance as previously reported	Prior period error	Reclassified (note 49)	Total
<b>Revenue</b>				
Service charges	689,564,770	-	(32,135,129)	657,429,641
Rental of facilities and equipment	31,842,871	-	(16,670,046)	15,172,825
Other income	68,175,652	(447,704)	-	67,727,948
Government grants and subsidies	174,797,224	197,190	-	174,994,414
Public contributions and donations	53,277,529	1,265,390	-	54,542,919
	<b>1,017,658,046</b>	<b>1,014,876</b>	<b>(48,805,175)</b>	<b>969,867,747</b>
<b>Expenses</b>				
Rentals	(17,653,607)	-	16,670,046	(983,561)
General expenses	(231,422,392)	(85,431)	32,010,572	(199,497,251)
	<b>(249,075,999)</b>	<b>(85,431)</b>	<b>48,680,618</b>	<b>(200,480,812)</b>
<b>Statement of financial position</b>				
<b>Current assets</b>				
Inventory	172,198,024	(85,431)	(12,492,228)	159,620,365
Receivables from exchange transactions	12,779,541	(447,704)	-	12,331,837
	<b>184,977,565</b>	<b>(533,135)</b>	<b>(12,492,228)</b>	<b>171,952,202</b>

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Prior period errors (continued)

#### Non-current assets

Investment property	24,937,113	-	985,572	25,922,685
Property, plant and equipment	5,974,833,168	1,265,390	(37,589,541)	5,938,509,017
	<u>5,999,770,281</u>	<u>1,265,390</u>	<u>(36,603,969)</u>	<u>5,964,431,702</u>

#### Current liabilities

Payables from exchange transactions	185,256,488	-	(197,190)	185,059,298
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#### Net assets

Accumulated surplus - opening balance		6,349,763,294	(48,168,269)	6,301,595,025
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#### 1. Insurance revenue incorrectly recognised

During the prior year insurance revenue was incorrectly recognised. The error was corrected in the current year.

#### Statement of financial position

Decrease in other receivables from exchange transactions	-	(447,704)
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#### Statement of financial performance

Decrease in other income	-	447,704
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#### 2. Reclassification of inventory to property, plant and equipment

Land which was incorrectly classified as inventory in prior periods (prior 2014) has been reclassified as property, plant and equipment and corrected in the current year.

#### Statement of financial position

Decrease in inventory	-	(777,548)
Increase in property, plant and equipment	-	777,548
	-	-

#### 3. Reclassification of inventory to investment property

Land which was incorrectly classified as inventory in prior periods (prior 2014) has been reclassified as investment property in the current year.

#### Statement of financial position

Decrease in inventory	-	(4,753,267)
Increase in investment property	-	4,753,267
	-	-

#### 4. Reclassification of investment property to property, plant and equipment

Land which was incorrectly classified as investment property in the prior period has been reclassified as property, plant and equipment in the current year.

#### Statement of financial position

Decrease in investment property	-	(467,695)
Increase in property, plant and equipment	-	467,695
	-	-

#### 5. Inventory incorrectly expensed

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Prior period errors (continued)

Correction of the opening balance of accumulated surplus and inventory due to the expense of inventory (land) which has been expensed incorrectly in previous years (prior 2014).

#### Statement of financial position

Increase in inventory	-	59,134
Decrease in accumulated surplus	-	(59,134)
	<u>-</u>	<u>-</u>

### 6. Inventory not disposed

Correction of inventory disposals not recognised in prior years (prior 2014) were corrected in the current year.

#### Statement of financial position

Decrease in inventory	-	(7,020,547)
Increase in accumulated surplus	-	7,020,547
	<u>-</u>	<u>-</u>

### 7. Property, plant and equipment additions not in register

Correction in the current year of property, plant and equipment opening balance due to additions that were not taken into account in the fixed asset register in prior years (prior 2014).

#### Statement of financial position

Increase in property, plant and equipment	-	6,385,307
Decrease in accumulated surplus	-	(6,385,307)
	<u>-</u>	<u>-</u>

### 8. Disposals of property, plant and equipment not recognised in the prior year

Correction of land disposals in prior years (prior 2014) that were only identified during a title deed search in the current financial year.

#### Statement of financial position

Decrease in property, plant and equipment	-	(36,758,569)
Decrease in accumulated surplus	-	36,758,569
	<u>-</u>	<u>-</u>

### 9. Reclassification of internal charges

Reclassification of internal charges and recoveries previously incorrectly classified and corrected in the current year.

#### Statement of financial performance

Decrease in service charges	-	32,135,129
Decrease in general expenditure	-	(32,135,129)
Decrease in rental of facilities and equipment	-	16,670,046
Decrease in rentals	-	(16,670,046)
	<u>-</u>	<u>-</u>

### 10. Correction of inventory disposals

Correction of inventory disposals not recognised in the prior year were corrected in the current year.

#### Statement of financial position

Decrease in inventory	-	(85,431)
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# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Prior period errors (continued)

#### Statement of financial performance

Increase in general expenditure

-	85,431
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#### 11. Property, plant and equipment additions not included

Correction of property, plant and equipment additions not taken up in the fixed asset register in the prior year were corrected in the current year.

#### Statement of financial position

Increase in property, plant and equipment

-	1,265,390
---	-----------

#### Statement of financial performance

Increase in public contributions and donations

-	(1,265,390)
---	-------------

#### 12. EPWP grant duplicated in prior year

Correction in the current year of EPWP grants that were duplicated in the prior year.

#### Statement of financial position

Decrease in payables from exchange transactions

-	197,190
---	---------

#### Statement of financial performance

Decrease in government grants and subsidies

-	(197,190)
---	-----------

#### 13. Reclassification of investment property to property, plant and equipment

Correction in the current year on classification of investment property to property, plant and equipment in prior years (prior 2014).

#### Statement of financial position

Decrease in investment property

-	(3,300,000)
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Increase in property, plant and equipment

-	3,300,000
---	-----------

#### 14. Correction of previous duplicated and incorrectly recognised property, plant and equipment

Correction in the current year of property, plant and equipment that were duplicated and incorrectly recognised in prior years in the fixed asset register.

#### Statement of financial position

Decrease in property, plant and equipment

-	(11,761,525)
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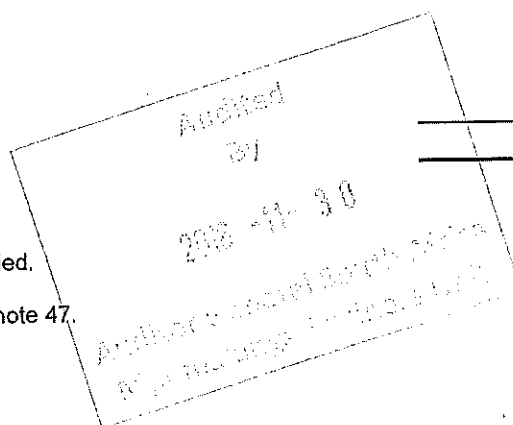
Decrease in accumulated surplus

-	11,761,525
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### 48. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are set out in note 47.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (cash flow interest rate risk), credit risk and liquidity risk.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At June 30, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term liabilities	10,334,263	11,442,540	32,269,097	23,054,258
Payables from non-exchange transactions	5,351,354	139,415	214,409	1,091,332
Payables from exchange transactions	106,815,237	1,522,810	50,487,801	-
At June 30, 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term liabilities	11,730,504	10,334,261	33,445,821	33,326,937
Payables from non-exchange transactions	633,068	139,415	214,409	1,343,965
Payables from exchange transactions	134,917,503	2,079,195	48,062,599	-

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Cash and cash equivalents	80,463,242	98,935,106
Trade receivables from exchange transactions	73,504,781	60,533,071
Investments	485,000,000	410,000,000
Long term receivables	41,688	110,780
Other receivables from exchange transactions	25,604,902	12,331,837
Receivables from non-exchange transactions	11,125,056	16,936,529

#### Market risk

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### 50. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

**Steve Tshwete Local Municipality**  
Annual Financial Statements for the year ended June 30, 2016

**Notes to the Annual Financial Statements**

Figures in Rand

**51. Events after the reporting date**

No events after reporting date occurred which requires disclosure.

**52. Unauthorised expenditure**

Community and public safety	-	14,579,111
Economic and environmental services (capital)	-	1,762,116
Executive and council	9,442,663	-
Municipal governance and administration	-	33,716,842
Trading services (capital)	-	3,704,542
Waste management	-	4,704,528
	<u>9,442,663</u>	<u>58,467,139</u>

The above unauthorised expenditure within the votes is as a result of year-end accounting transactions not budgeted for. This unauthorised expenditure will be tabled in a special adjustment budget when the annual report is tabled in accordance with section 23(6) of the Budget and Reporting Regulations. Despite the overspending on the above votes, the total approved expenditure did not overspend.

**53. Fruitless and wasteful expenditure**

Opening balances	140,081	294,465
Additions	800	124,556
Written off by council	-	(278,940)
	<u>140,881</u>	<u>140,081</u>

**54. Irregular expenditure**

Add: Irregular Expenditure - current year	17,401,719	-
Add: Irregular Expenditure - previous year	14,298,170	-
	<u>31,699,889</u>	<u>-</u>

**Details of irregular expenditure – current year**

Rand Water	Non-compliance with SCM policy by Rand water	16,387,490
Altimax	Invalid reason for deviation	941,492
Blentech (Pty) Ltd	Invalid reason for deviation	72,736
		<u>17,401,718</u>

**55. Additional disclosure in terms of Municipal Finance Management Act**

**Contributions to SALGA**

Membership fees payable	4,125,090	358,177
Amount paid - current year	(4,125,090)	(358,177)
	<u>-</u>	<u>-</u>

**Audit fees**

Current year fee	4,959,307	4,571,294
Amount paid - current year	(4,959,307)	(4,571,294)
	<u>-</u>	<u>-</u>

# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 55. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### PAYE and UIF

Current year payroll deduction (PAYE)	48,202,527	43,605,971
Current year payroll deduction (UIF)	4,272,904	4,090,075
Amount paid - current year (PAYE)	(48,202,527)	(43,605,971)
Amount paid - current year (UIF)	(4,272,904)	(4,090,075)
	-	-

#### Pension and medical aid deductions

Current year payroll deduction (medical aid)	32,132,058	28,593,440
Current year payroll deduction (pension fund)	59,523,904	54,345,203
Amount paid - current year (medical aid)	(32,132,058)	(28,593,440)
Amount paid - current year (pension fund)	(59,523,904)	(54,345,203)
	-	-

#### VAT

VAT receivable	6,070,158	31,292,987
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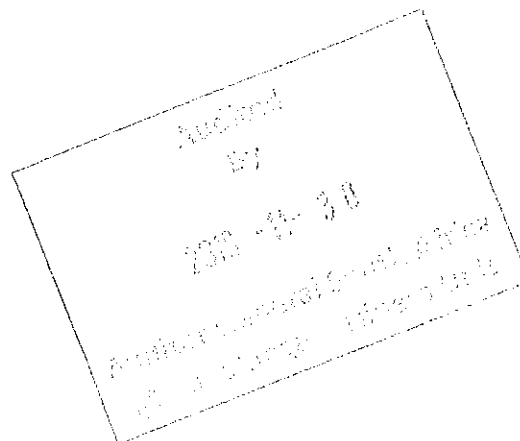
All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

No councillor had arrear accounts outstanding for more than 90 days at 30 June 2016. The following councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

June 30, 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr O Malinga - Account 34-2195-1X	931	4,378	5,309
Cllr MN Mathibela - Account 21-0093-7X	-	3,439	3,439
Cllr PP Tau - Account 89-2480-3X	-	5,497	5,497
	<u>931</u>	<u>13,314</u>	<u>14,245</u>

During the year no councillors' had arrear accounts outstanding for more than 90 days.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 55. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Paragraph 45(a),(b) &(c) of Government Gazette No. 27636 issued on 30 May 2005 states that the notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months.

#### Emergency

Ekleto Live Life Love Water - daughter works for the municipality	62,048	-
Izwe-Libanzi Developments Consultants - relative work for the Department of Health	-	9,882
Lefatshe La Rona Trading - wife is a teacher	-	29,900
Payati Business Enterprise	41,496	176,117
Tenemo General Dealer - sister works for the Department of Health	32,450	-
Tsoga Moteo Trading and Projects - wife works for the Sekhukhune District Municipality	19,271	116,375

#### Sole supplier or agent

Live Life Love Water - daughter works for the municipality	-	86,033
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#### Impossible or impractical

Mamphela Waste Management (Pty) Ltd - father works for the municipality	476,979	-
MBG Auto Body Panelbeter - father works for the municipality	1,761	-
Pro Video Foto Express - Relative works at IT department	-	7,620
Sivest (Pty) Ltd - wife works for City of Cape Town	36,363	-
SMEC South Africa (Pty) Ltd - wife works for Provincial Government	89,285	-
Teriemo General Dealer (Pty) Ltd - Sister works at the Department of Health	-	141,785
Vutivictory (Pty) Ltd - Husband works at EES department	-	27,600
	<b>759,653</b>	<b>595,312</b>

### 56. Budget differences

#### Material differences between budget and actual amounts

A variance of 10% of more or a variance of (10%) or less is considered to be a material variance.

Reasons for material differences between actual and budget figures are explained below:

1. Interest received - investments - R17 389 073 more interest realised due to the increase in the prime rate and more cash on hand invested during the year.
2. Interest received - trading - more interest received of R892 523 due to the increase in the prime rate and higher outstanding debt above 60 days.
3. Fines - R3 089 200 more revenue accrued from traffic fines than budgeted based on the actual fines issued.
4. Agency services - due to the increase in licensing fees and licenses issued, more revenue realised from agency services to the amount of R2 064 663.
5. Other revenue - sale of erven to the amount of R80 357 963 did not realise as planned.
6. Debt impairment - increase in long outstanding consumer debtors and traffic debtors resulted in the increase of the provision with R8 396 772.
7. Finance charges - finance charges were less than budgeted for due to the planned external loan not taken up in the current year. The budget underspending amounted to R19 132 864.



# Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 56. Budget differences (continued)

8. Contracted services - underspending of security services (R1 708 189), bulk meter management (R1 060 000), internet commission fees (R1 336 400) and services from private contractors (R1 591 890).

9. General expenditure - reclassification of departmental charges to the amount of R37 556 932 and underspending of fuel and lubricants (R3 222 027), consultancy fees (R10 314 362) and land inventory expensed to the value of R48 512 524 which did not realise, as well as the Eskom connection fee of R5 610 642 not realising.

10. Contribution to provisions - increased provisions for employee stated benefits of R10 214 794 and long service awards of R2 988 744 and landfill rehabilitation of R3 787 334 not budgeted for.

11. Various projects on the capital budget deviate from the adjustment budget and was not implemented on 30 June 2016. The reason for the variances are the procurement processes, extended delivery time due to import of materials, EIA processes and non-responsive tenders. As a result, an amount of R57 376 385 was rolled over to the 2016/2017 capital budget which consists of government and administration (R3 054 000), community and public safety (R5 399 418), economic and environmental services (R205 867) and trading services (R48 717 108).

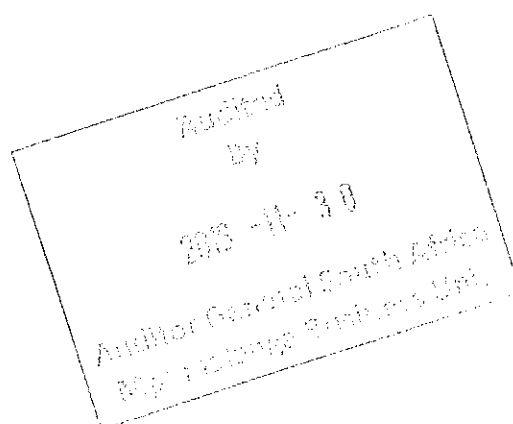
Adjustment budget - the municipal council adjusted the municipal budget during February 2016 under item SC18\02\2016. The adjustments include additional revenues on property rates and service charges which has become available over and above those anticipated in the annual budget. These revenues to the amount of R37 400 000 were utilised to revise the spending programmes already budgeted for. The operating expenditure increased with R35 900 000 to adjust the spending programmes. More details on these adjustments are available in the municipal adjustment budget.

### 57. Deviation from supply chain management regulations

Class		
Emergency	14,686,803	16,732,647
Sole suppliers	6,689,478	5,890,988
Impractical or impossible to follow the process	31,830,509	26,231,687
Special works of art	473,223	1,582,485
	<u>53,680,013</u>	<u>50,437,807</u>

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.



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